

# PORTUGUESE BANKING SECTOR OVERVIEW

# AGENDA

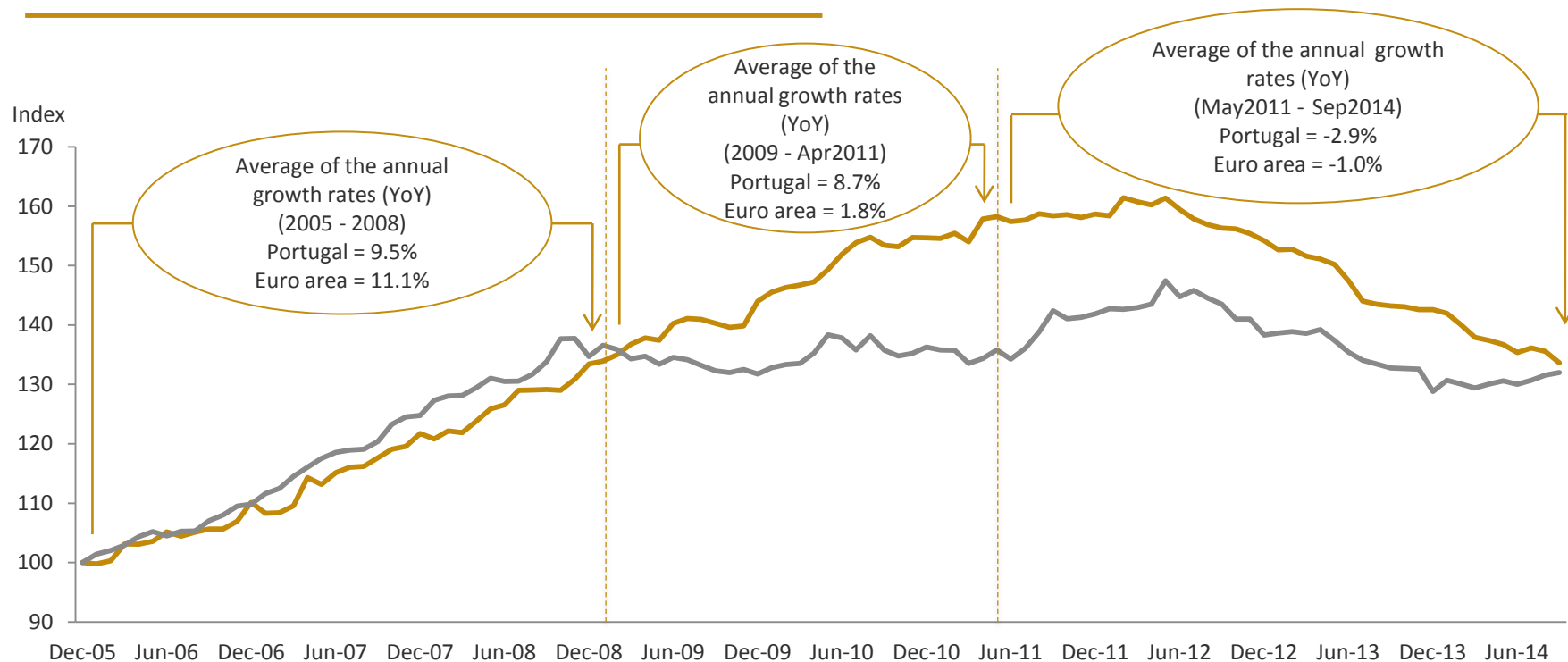
- I. Importance of the Banking Sector for the Economy
- II. Credit Activity
- III. Funding
- IV. Solvency
- V. State Guarantee and Recapitalisation Schemes for Credit Institutions
- VI. Profitability

# PORTUGUESE BANKING SECTOR OVERVIEW

## I. Importance of the Banking Sector for the Economy

Contrary to what occurred in the Euro area, the 2008-2010 financial crisis did not slow down the total assets growth of Portuguese banks, however it fell with the sovereign debt crisis.

**Banking sector's total assets evolution (Dec. 2005=100)**

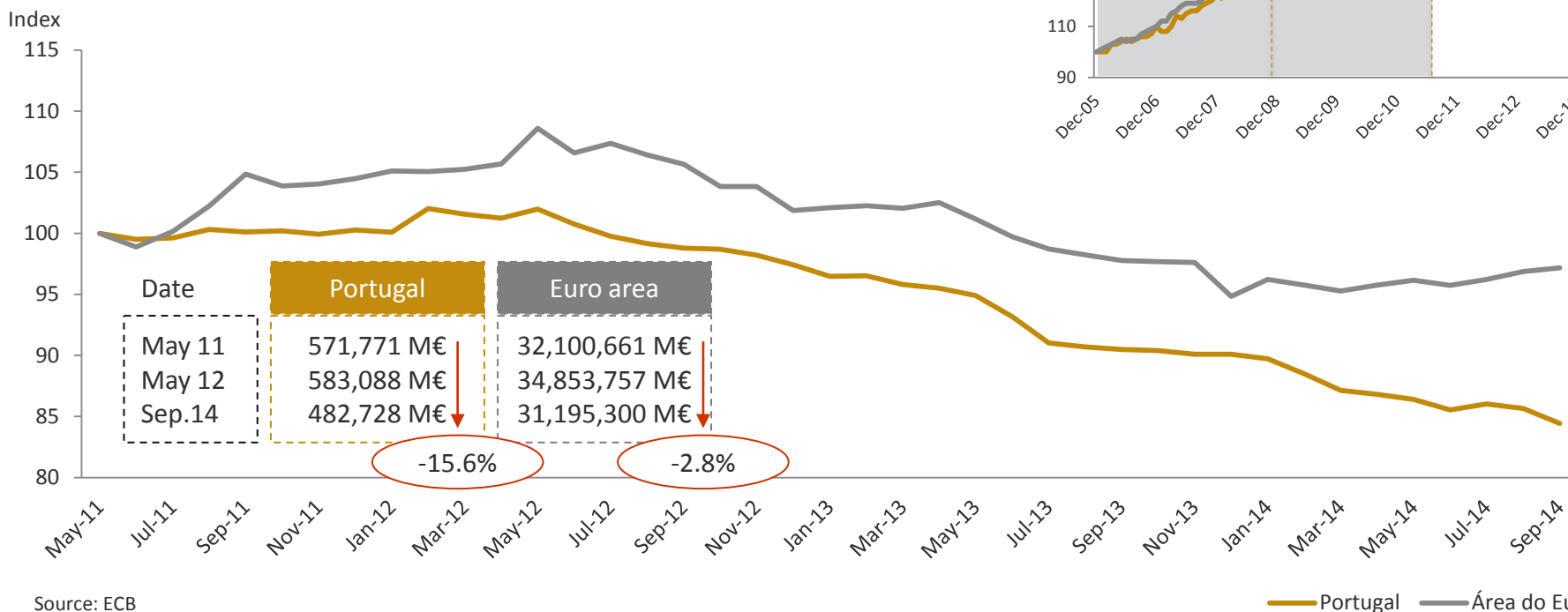


Source: ECB

— Portugal — Euro area

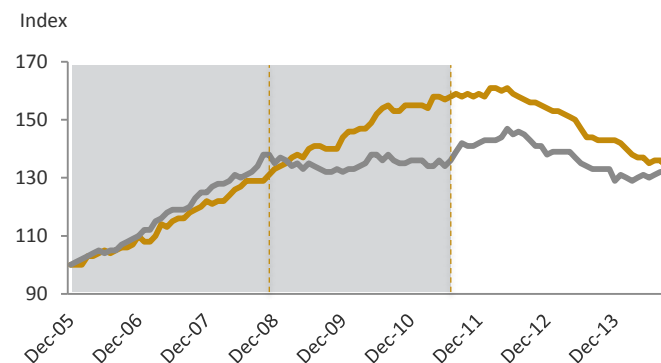
Portuguese banks started the measures for undertaking their deleveraging process after the Economic Adjustment Programme began. Their results started to show on banks' balance sheets after May 2012.

**Banking sector's total assets evolution (May 2011=100)**



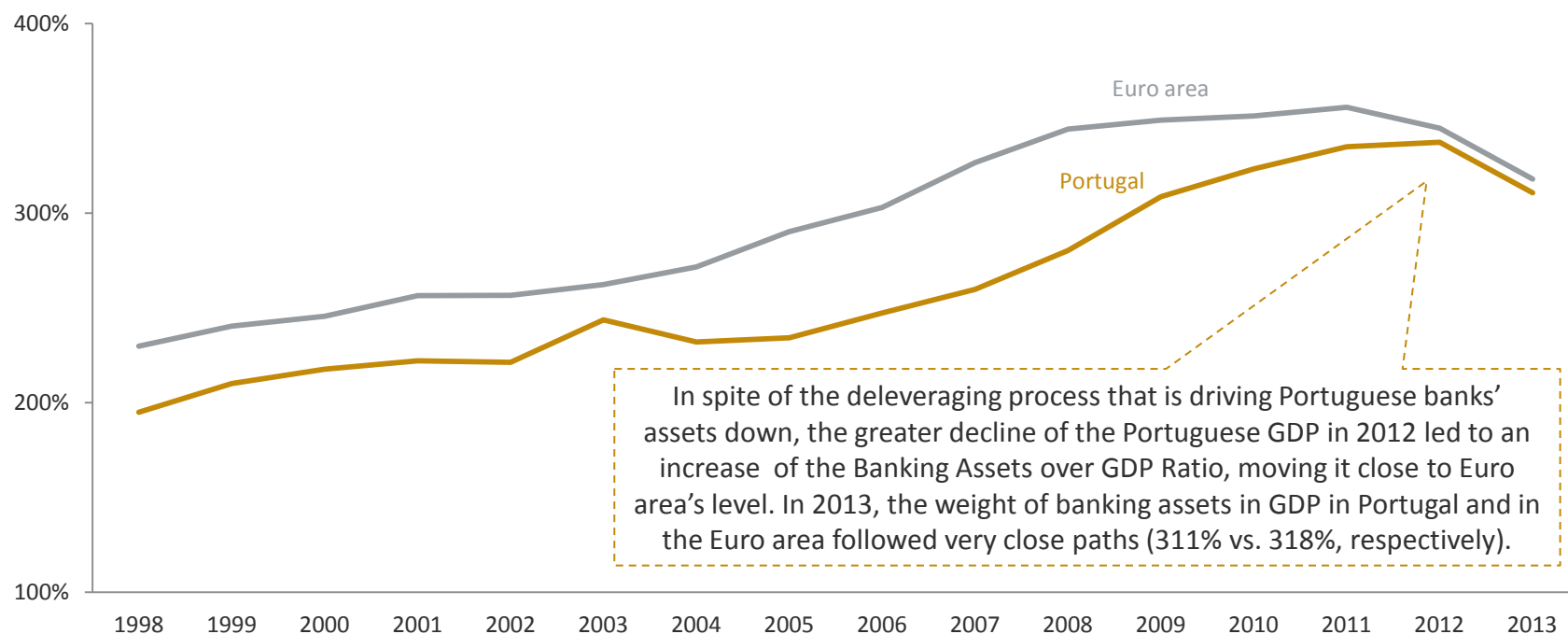
Source: ECB

**Banking sector's total assets evolution (Dec. 2005=100)**



The Portuguese banking sector plays an important role in the economy. Its weight on the national GDP is similar to Euro area's level.

### Banking sector's assets relative to GDP\* for Portugal and Euro area

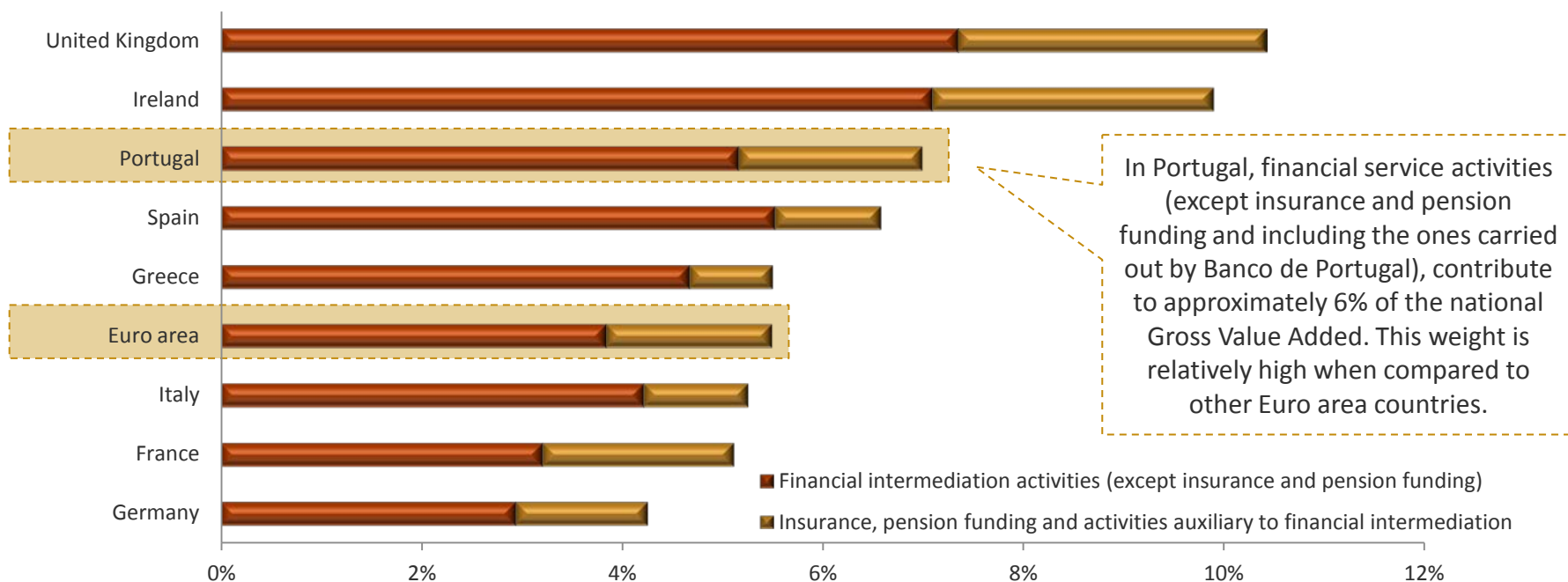


\* Nominal Gross Domestic Product.

Source: ECB

In Portugal, the contribution of financial intermediation activities for the national Gross Value Added stays well above the one of the Euro area.

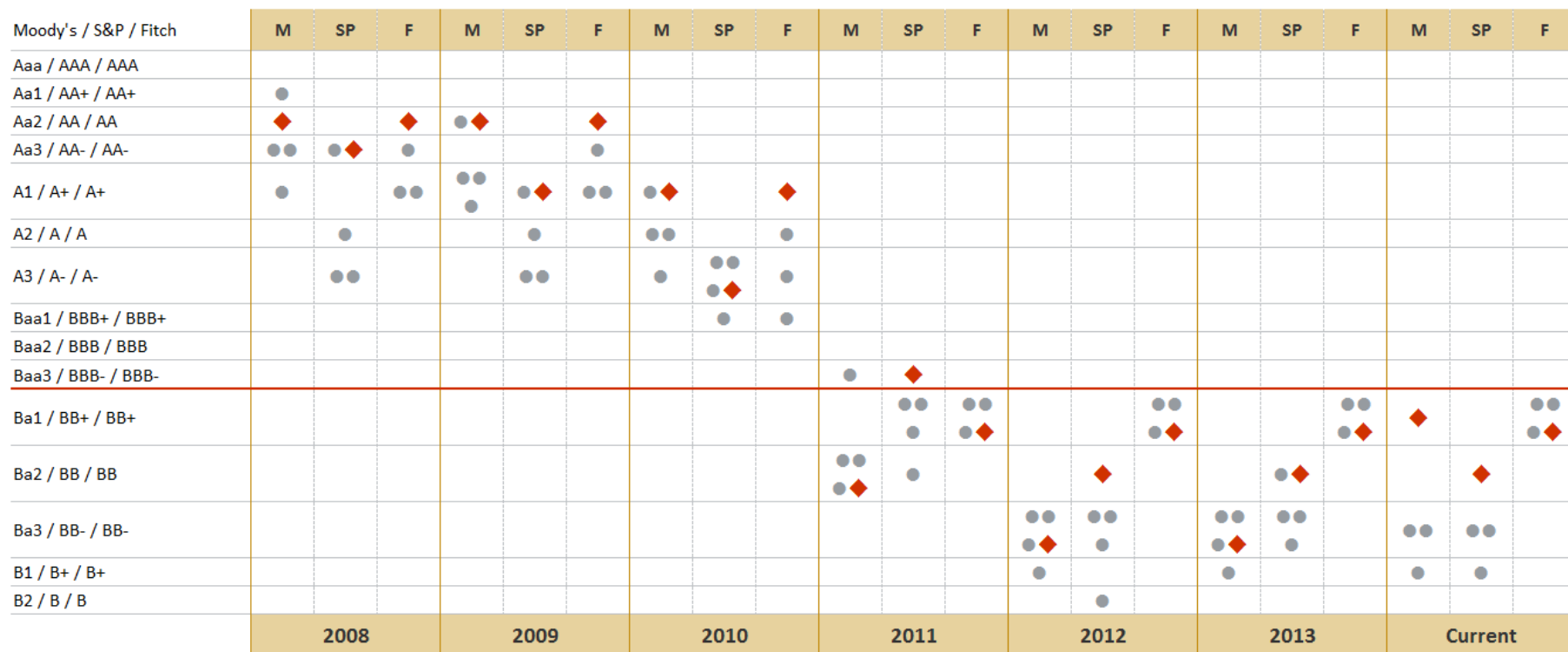
**Financial intermediation GVA relative to total GVA for Portugal and selected European Union countries (2009)**



Source: Eurostat, Statistics Portugal (INE), Central Statistics Office Ireland

# The downgrades of the Portuguese Republic ratings negatively affected the ratings of Portuguese banks.

Evolution of the Portuguese Republic and Portuguese banks' ratings by Moody's, S&P and Fitch



Source: Bloomberg  
 ◆ Portuguese Republic  
 ● Portuguese banks

End of year

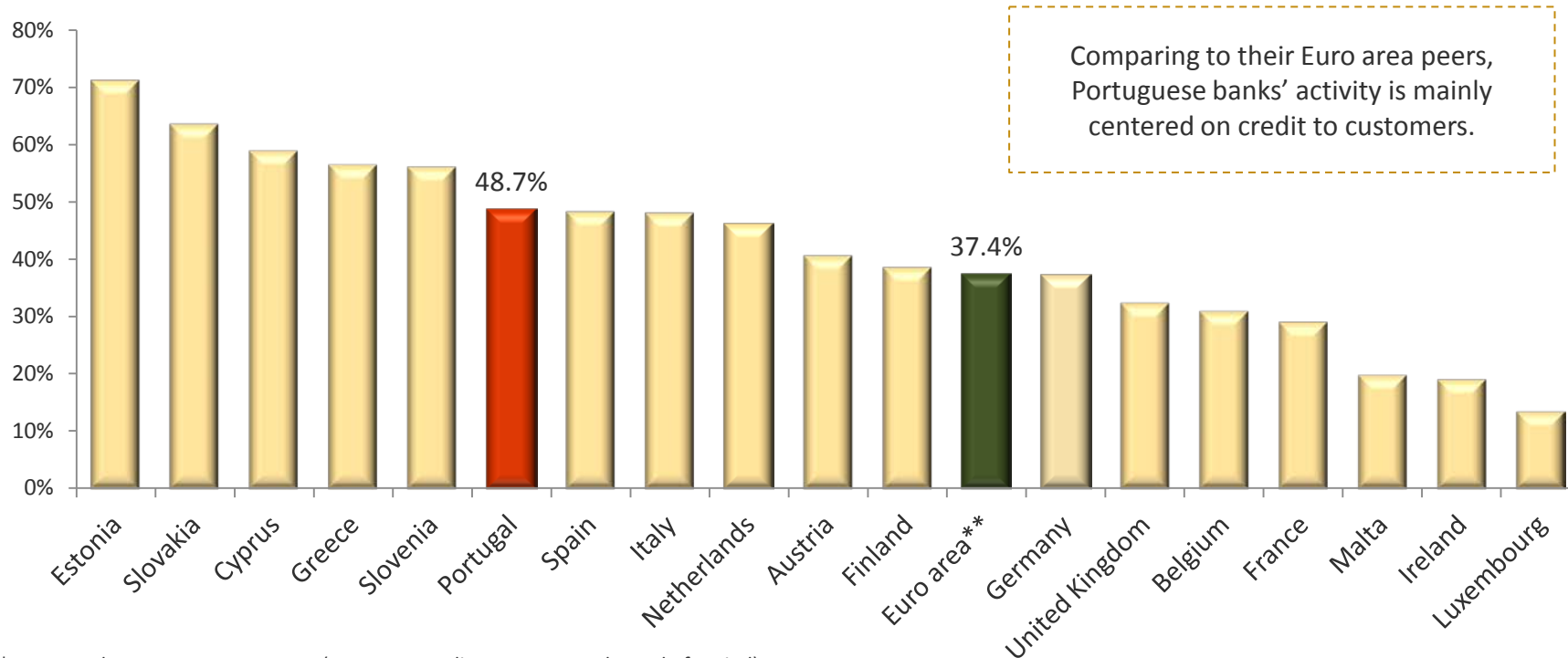


# PORTUGUESE BANKING SECTOR OVERVIEW

## II. Credit Activity

# For Portuguese banks, credit to customers absorbs almost 50% of total assets.

**Credit to customers\* as a percentage of total assets (September 2014)**



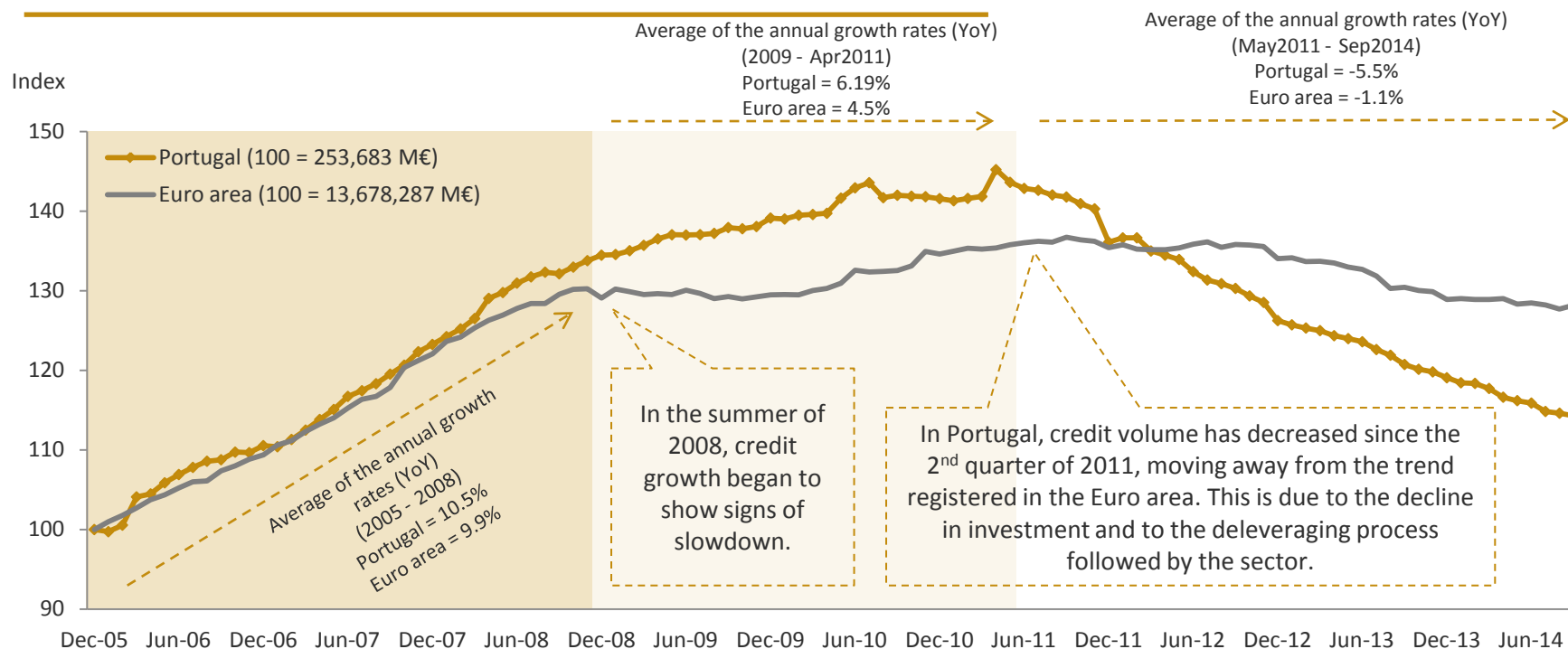
\* Loans to the non-monetary sector (gross outstanding amounts at the end of period).

\*\* Aggregated data.

Source: ECB

During the period that preceded the financial crisis, credit volumes followed a strong increasing trend, both in Portugal and in the Euro area.

### Trends in credit\* in Portugal and in the Euro Area (Dec. 2005=100)

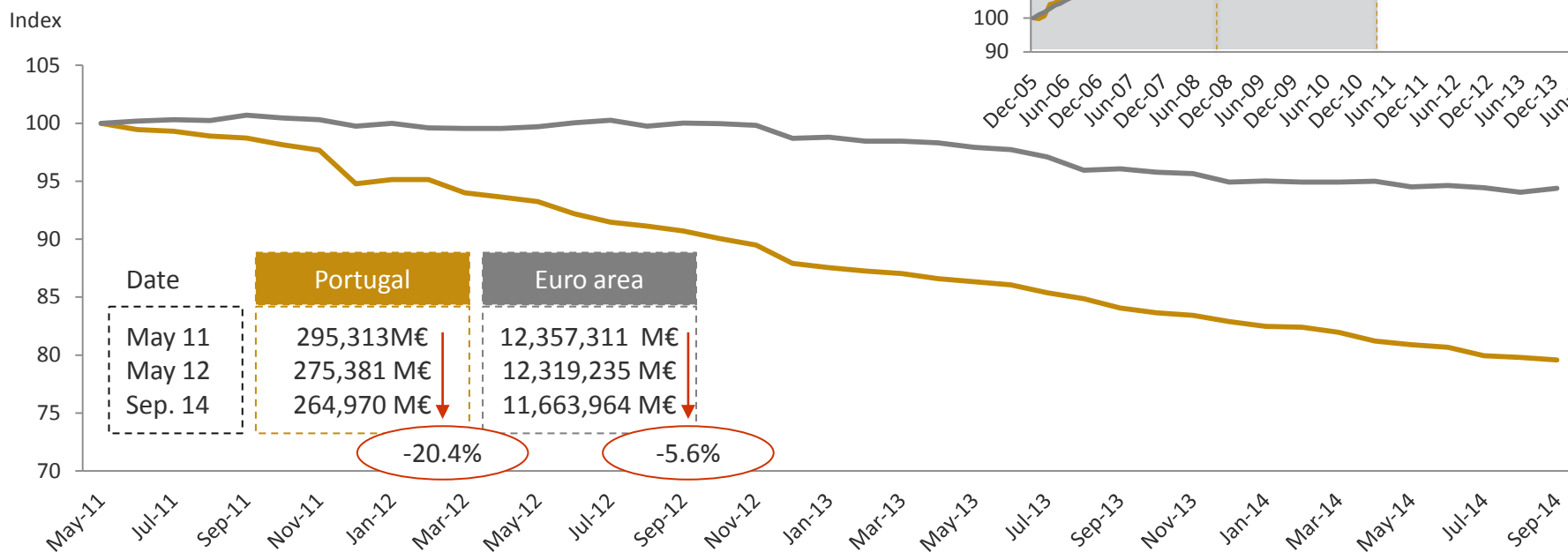


\* Loans to the non-monetary sector.

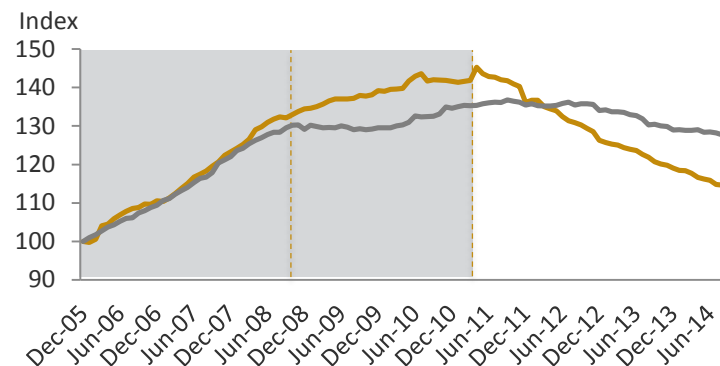
Source: ECB

# After the sovereign debt crisis affected Portugal, credit volume decreased more than in the Euro area.

**Trends in credit\* in Portugal and in the Euro Area (May 2011=100)**



**Trends in credit\* in Portugal and in the Euro Area (Dec. 2005=100)**

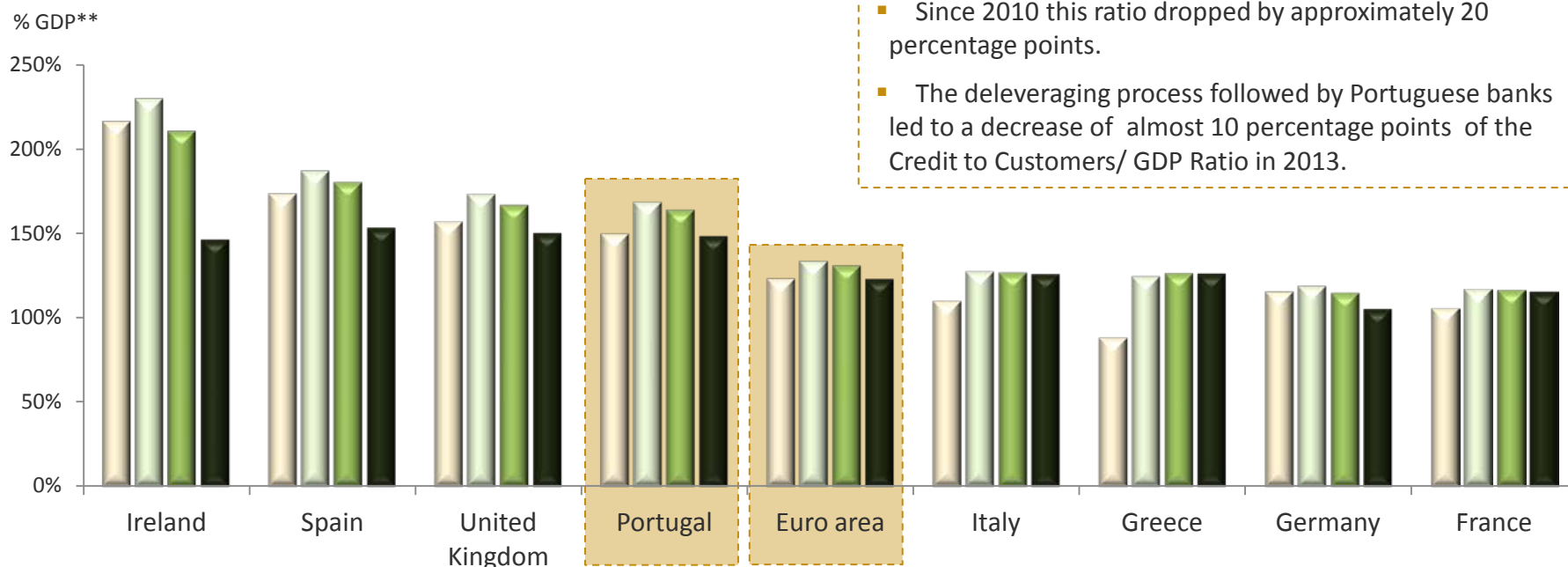


\* Loans to the non-monetary sector (gross outstanding amounts at the end of period).

Source: ECB

Despite the reduction in the Credit to GDP Ratio since 2010, the Portuguese economy still presents relatively high levels of bank debt to GDP when compared with the Euro area.

**Credit to Customers\* / GDP\*\* Ratio**



- At the end of 2013, credit to customers in Portugal represented around 148% of the nominal GDP.
- Since 2010 this ratio dropped by approximately 20 percentage points.
- The deleveraging process followed by Portuguese banks led to a decrease of almost 10 percentage points of the Credit to Customers/ GDP Ratio in 2013.

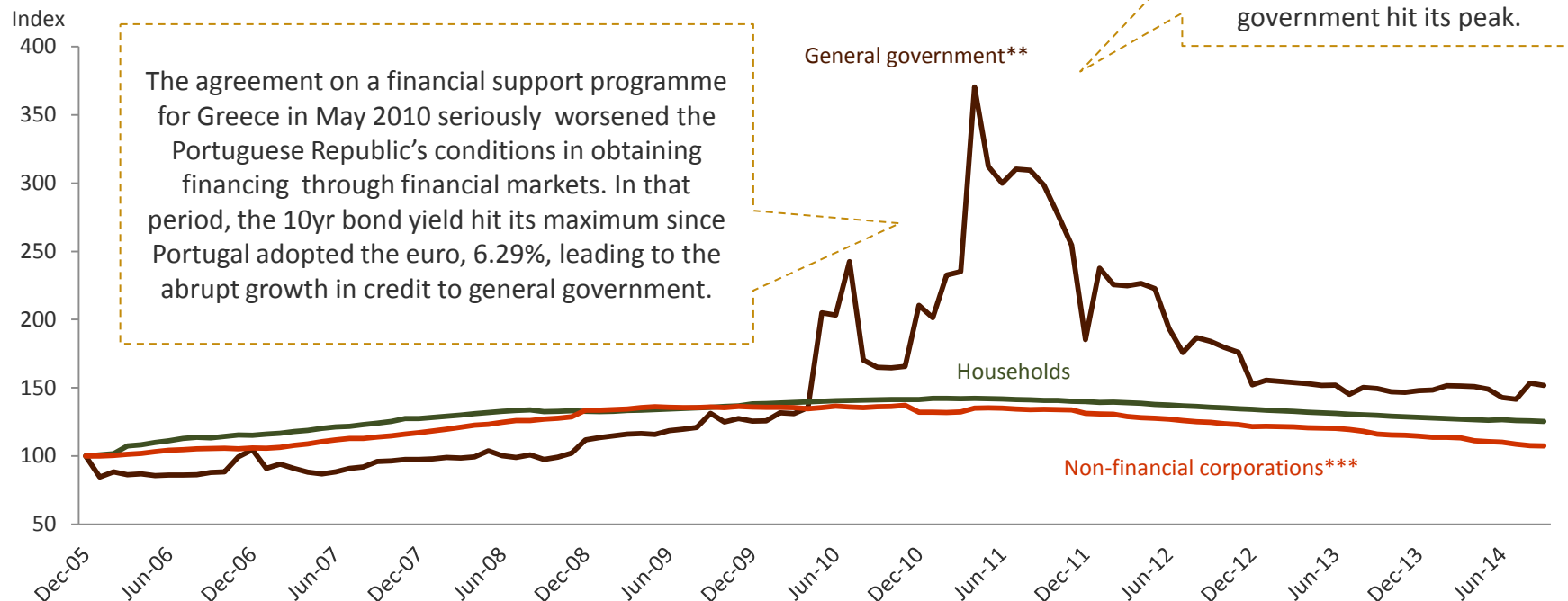
\* Loans to the whole non-monetary sector (gross outstanding amounts at the end of period).  
 \*\* Nominal Gross Domestic Product.

■ 2007 ■ 2010 ■ 2011 ■ 2013

Source: ECB, Eurostat

# Stocks of credit to households and non-financial corporations reveal divergent trends than stocks of credit to the general government.

**Trends in credit volumes\* by institutional sector (Dec. 2005=100)**



\* Gross outstanding amounts at the end of period.

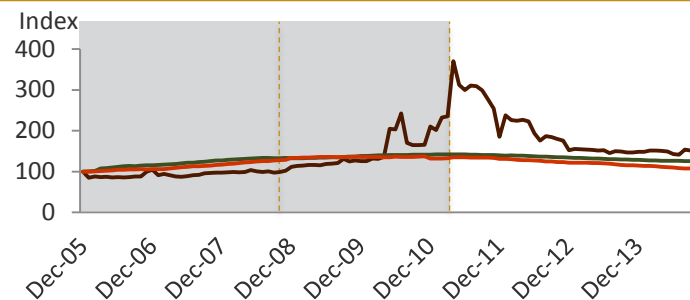
\*\* Only includes loans (does not include public debt securities).

\*\*\* Includes state-owned non-financial corporations.

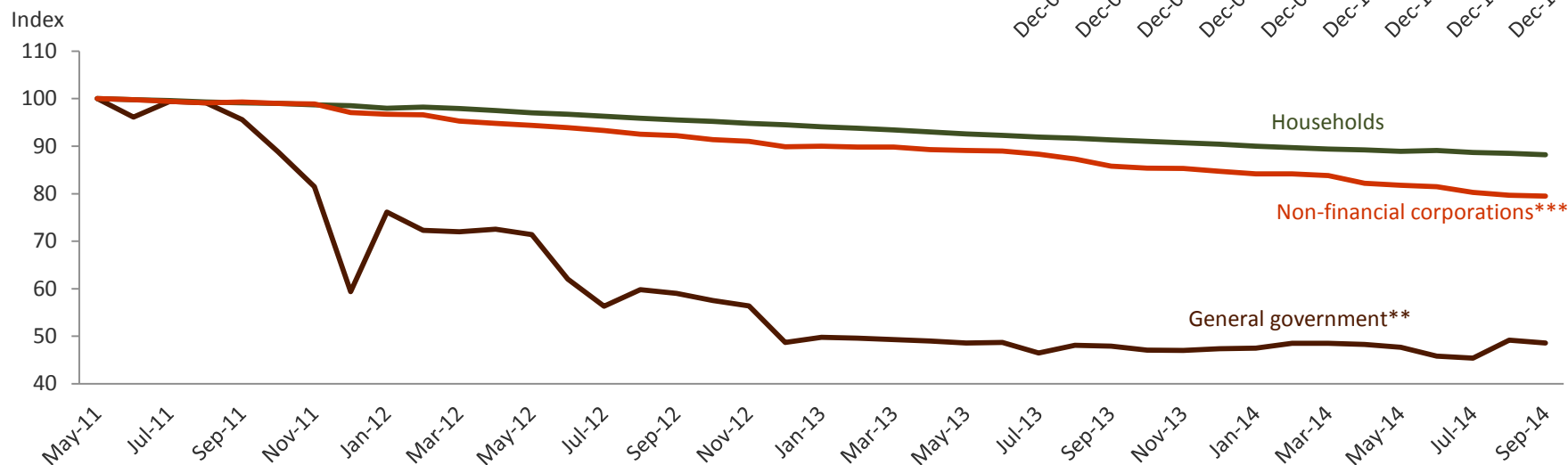
Source: Banco de Portugal

However, since the beginning of the EAP the stock of credit to the general government has been decreasing at a higher pace than the stock of credit to households and non-financial corporations.

Trends in credit volumes\* by institutional sector (Dec. 2005=100)



Trends in credit volumes\* by institutional sector (May 2011=100)

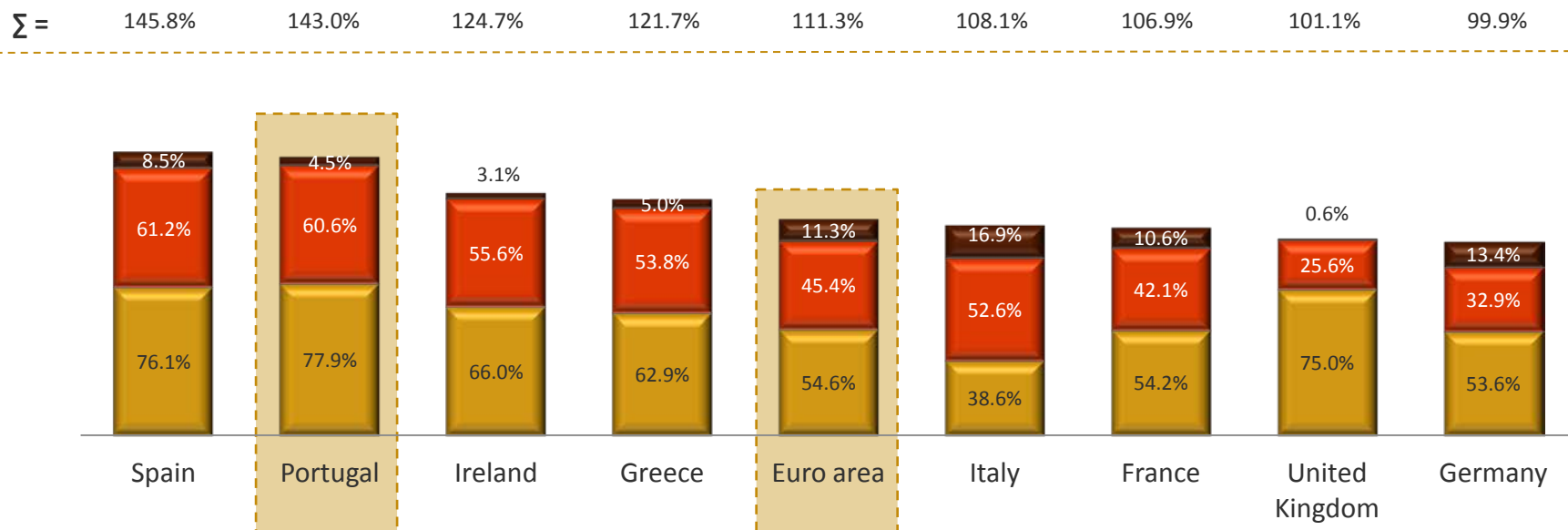


\* Gross outstanding amounts at the end of period.  
 \*\* Only includes loans (does not include public debt securities).  
 \*\*\* Includes state-owned non-financial corporations.

Source: Banco de Portugal

In Portugal, the reliance on credit of households and non-financial corporations is considerably higher than in the Euro area.

**Weight of credit to households, non-financial corporations and general government in GDP\*, in Portugal vs. selected European Union countries (December 2013)**



\* Nominal Gross Domestic Product.

\*\* Only includes loans (does not include public debt securities).

\*\*\* Includes state-owned non-financial corporations.

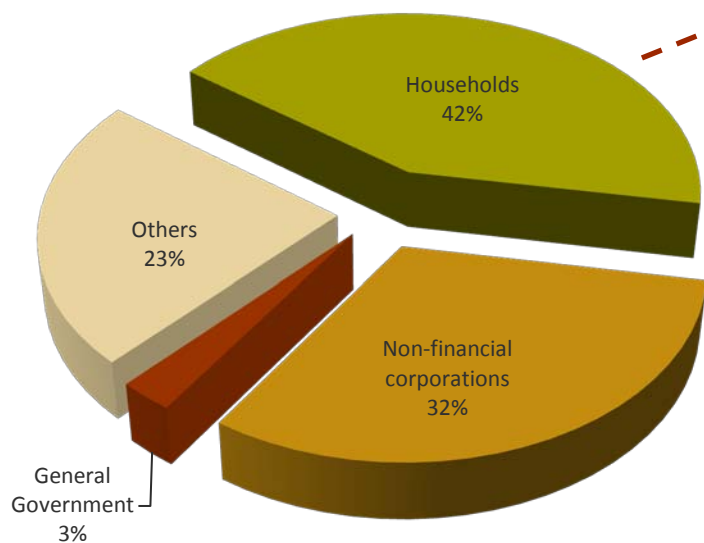
■ General government\*\* ■ Non-financial corporations\*\*\* ■ Households

Source: Ameco, ECB

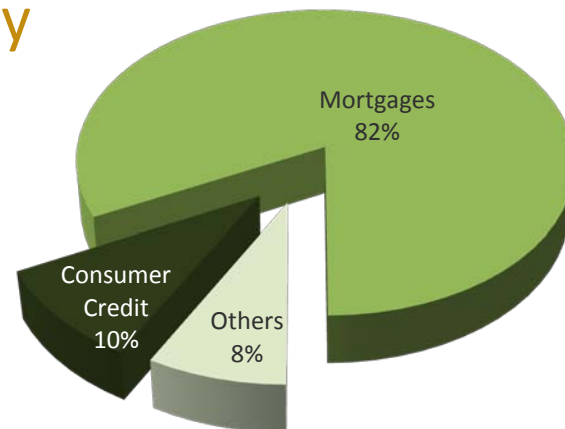


Credit to households is primarily mortgages, whereas credit to NFC is mainly intended to construction and real estate.

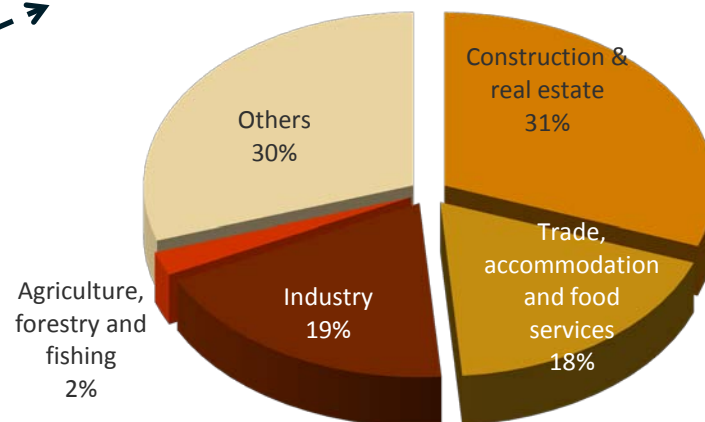
**Total credit\* (September 2014)**



**Credit to households**



**Credit to non-financial corporations**

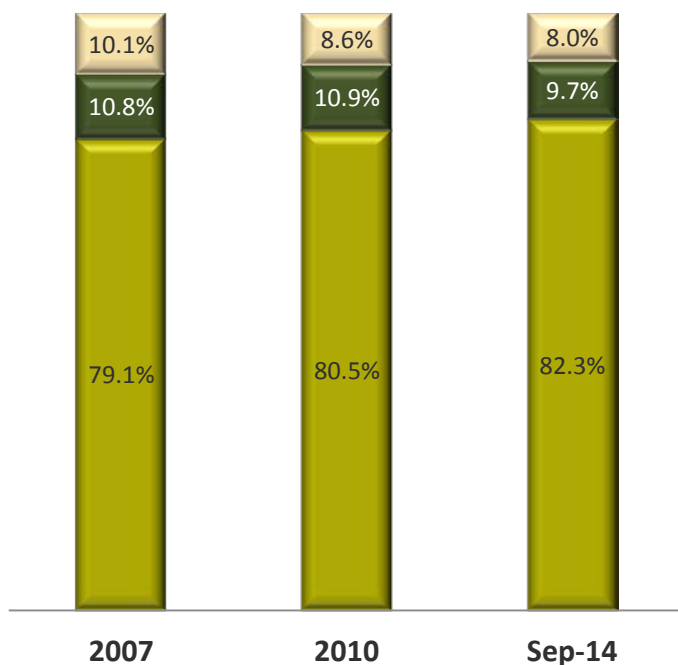


\*Loans to the monetary and non-monetary sectors including non-residents (gross outstanding amounts at the end of month).

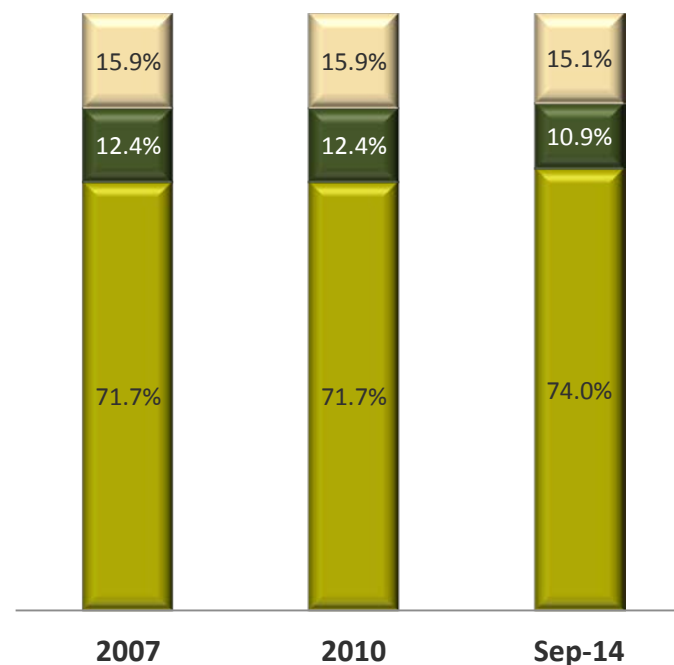
Source: Banco de Portugal

In Portugal, mortgages account for a bigger share on the outstanding amount of loans to households than in the Euro area.

**Portugal**



**Euro area**



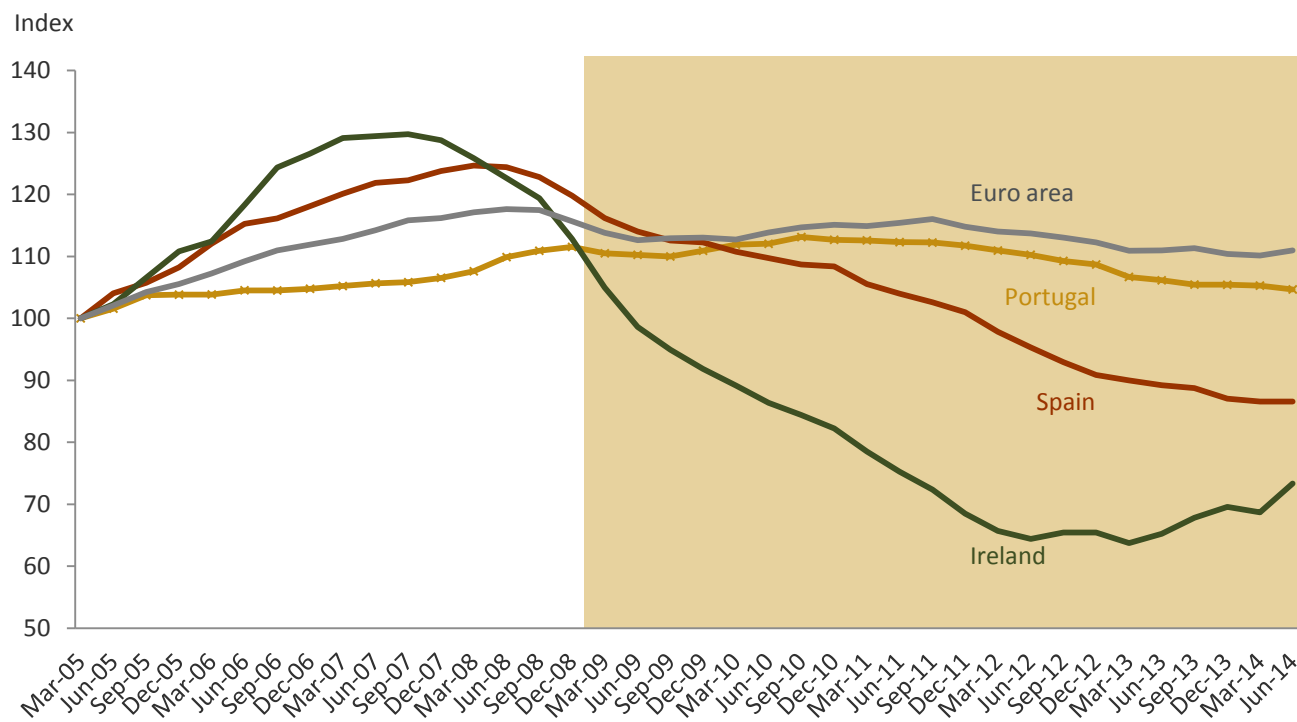
The weight of consumer credit on the stock of loans to households has decreased both in Portugal and in the Euro area. Nevertheless, this type of credit is still less relevant in Portugal than in the Euro area.

Others Consumption Mortgage

Source: ECB

The trend of residential property prices in Portugal shows a more stable pattern than the one of other Euro area countries.

**Residential property prices in Portugal and selected Euro area countries (Mar. 2005=100)**



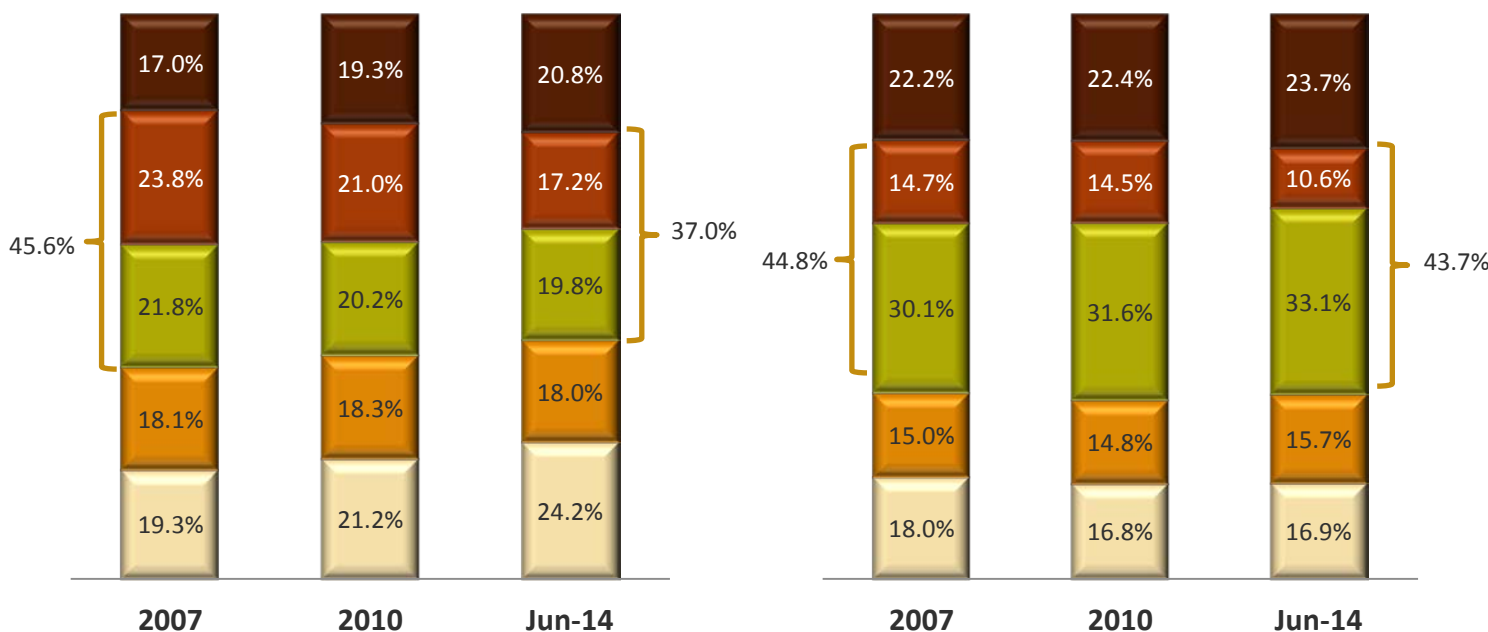
When the sub-prime crisis erupted, residential property prices in Portugal remained relatively constant. The real estate sector had not been influenced by a speculative boom, as happened in Spain or in Ireland.

Source: ECB

Within the Euro area, the real estate sector absorbs the largest portion of the outstanding amount of loans to non-financial corporations.

**Portugal**

**Euro area**



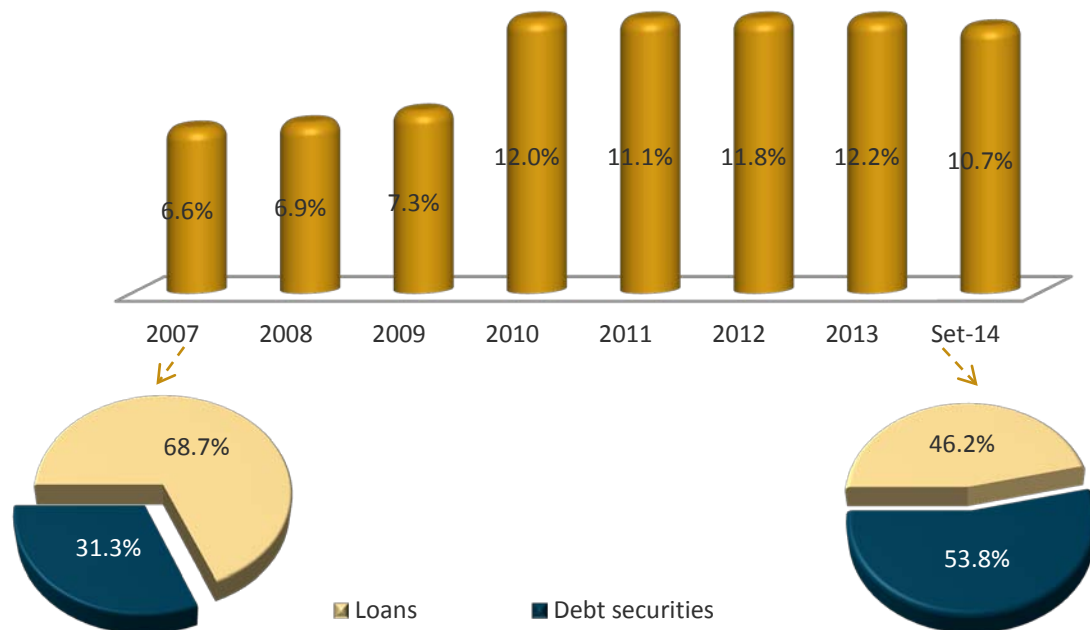
In Portugal, the proportion of the construction and real estate sectors, in aggregated terms, has been decreasing since 2007. In the Euro area, the weight of these sectors increased until 2012, sustained by the real estate sector. More recently however, it has been declining as well, mostly due to the decline in the activity of the construction sector

■ Agriculture & industry ■ Construction ■ Real estate, professional, technical and administrative activities ■ Trade, accommodation and food service activities ■ Others

Source: Banco de Portugal, ECB

However, state-owned entities account for almost 10% of the total debt of non-financial corporations to the resident financial sector.

**Credit to state-owned non-financial corporations in Portugal\***



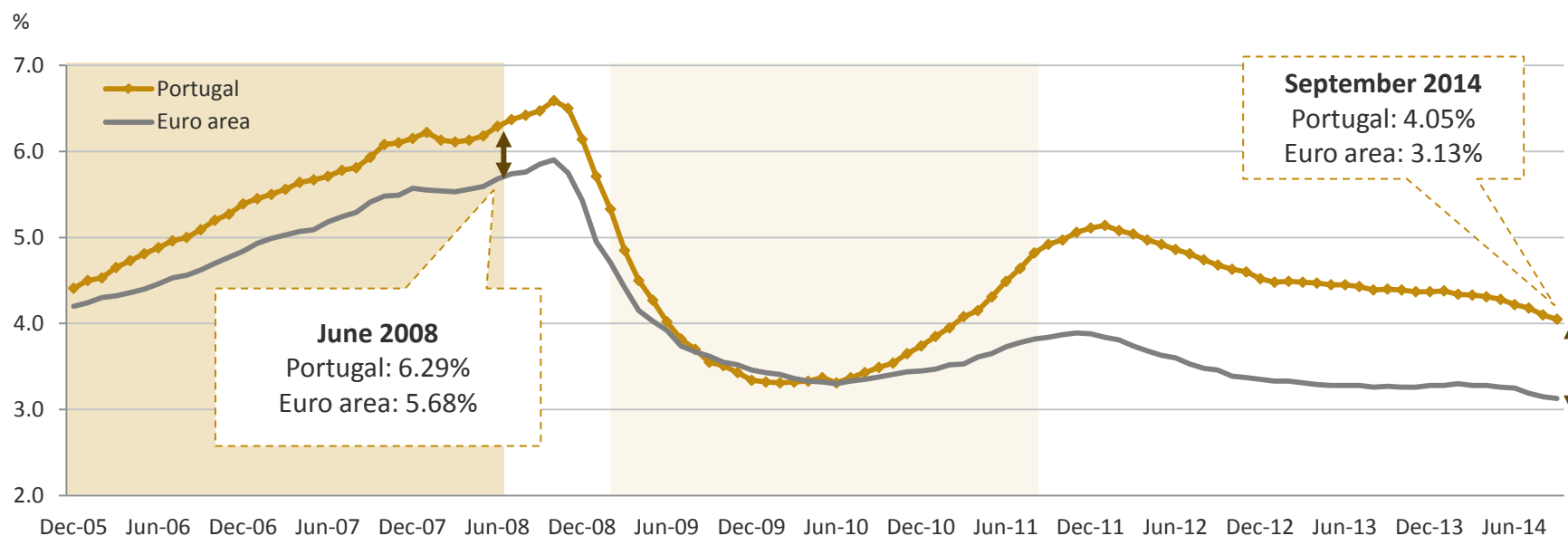
In Portugal, credit to the State-Owned Enterprise Sector absorbs an important share of the total outstanding amount of credit to non-financial corporations. Moreover, it increased substantially from 2009 onwards.

\* As a percentage of the total amount of loans outstanding and debt securities owed by non-financial corporations to the resident financial sector. The concept of resident financial sector includes not only banks but also other financial institutions.

Source: Banco de Portugal

The gap between the average interest rates on loans to non-financial corporations in Portugal and in the Euro area increased after the beginning of the sovereign debt crisis, due to the fragmentation of the financial markets.

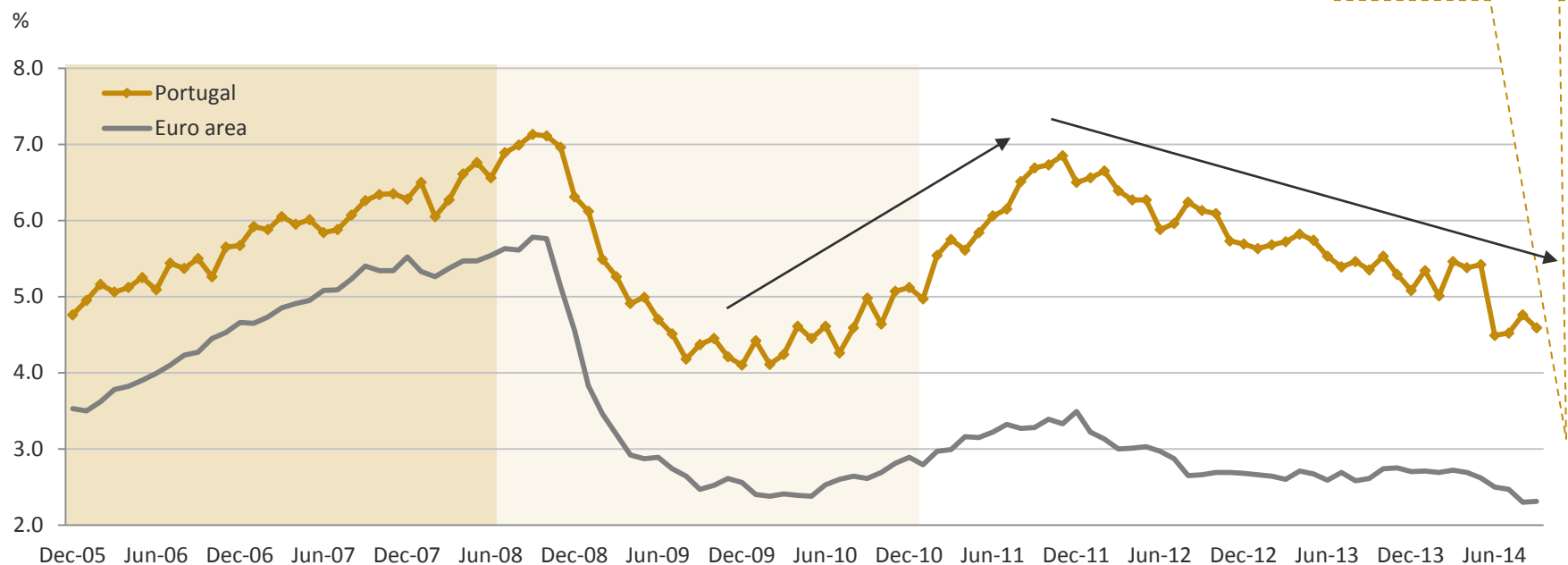
**Evolution of the average interest rates on MFI loans to non-financial corporations (stock on balance sheet) in Portugal and in the Euro area**



Source: ECB

Interest rates on new loans to NFCs in Portugal increased since mid-2009, however they have been decreasing since the beginning of 2012.

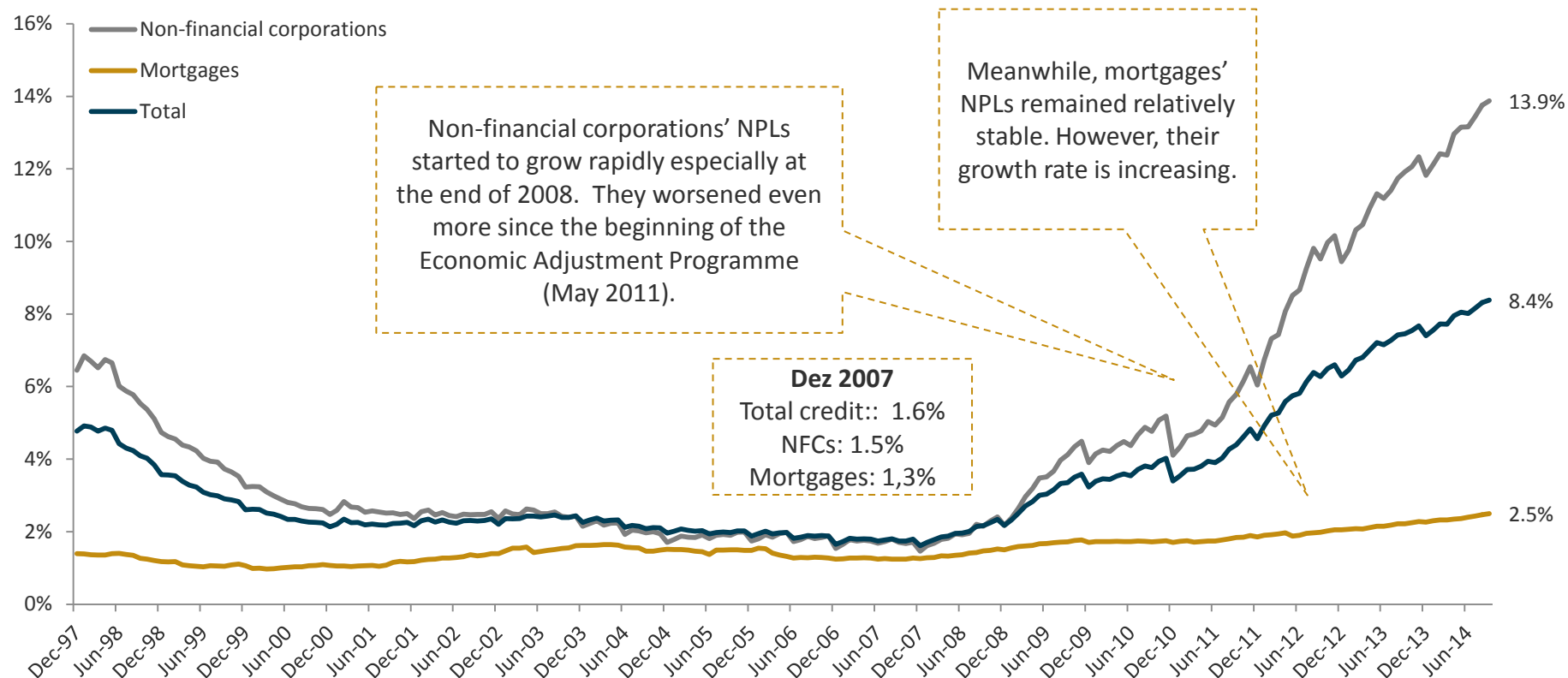
**Evolution of the average interest rates on MFI loans to non-financial corporations (new operations) in Portugal and in the Euro area**



Source: BCE

## NPLs grew since 2008 mainly in the corporate segment.

**Non-performing loans\* as a percentage of the corresponding credit (until September 2014)**



\* Base on the national definition that includes only amounts outstanding of credit overdue for at least 30 days and doubtful loans recorded in the balance sheet of monetary financial institutions.

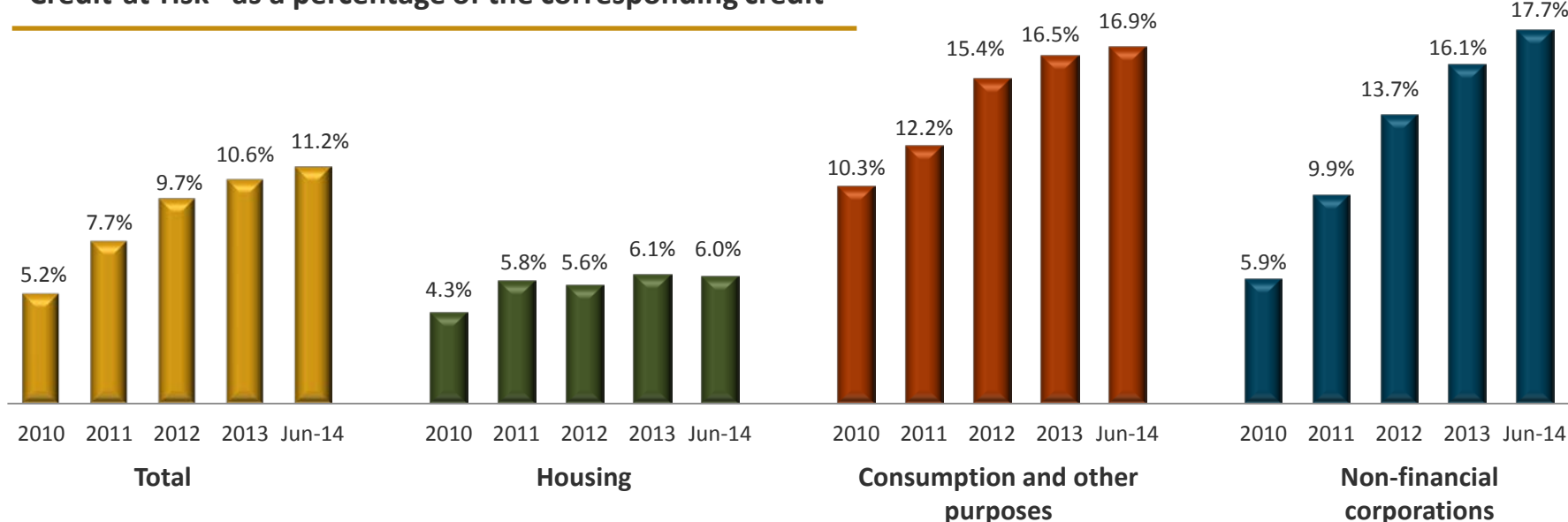
Source: Banco de Portugal



In 2011, following the Adjustment Programme requirements, Banco de Portugal has implemented a new NPLs ratio in line with international practices, named credit-at-risk.

The new ratio considers the entire impaired loan, rather than only the overdue amount.

**Credit-at-risk\* as a percentage of the corresponding credit**



\* Includes total outstanding credit with overdue installments of principal or interest for a period of more than 90 days, total value of outstanding restructured credits in which payments of principal or interest, having been overdue by a period equal to or greater than 90 days, have been capitalized, refinanced or rescheduled without adequate strengthening of collateral or full repayment of overdue interest and outstanding credit with overdue installments of principal or interest for a period of less than 90 days, but for which there is evidence that would justify its classification as non-performing loans

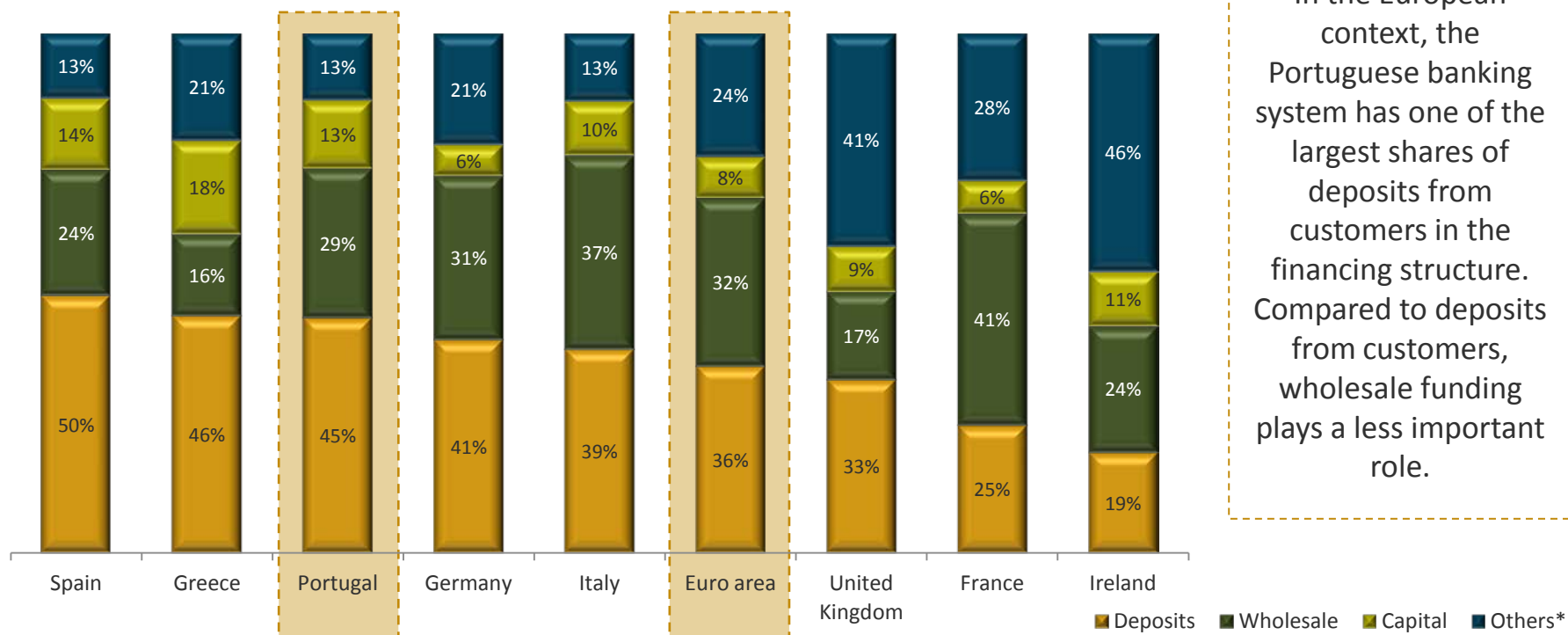
Source: Banco de Portugal

# PORTUGUESE BANKING SECTOR OVERVIEW

## III. Funding

# Deposits from customers constitute the most important part of the financing structure of Portuguese banks.

Financing structure of Portuguese and other European Union countries' banks (September 2014)



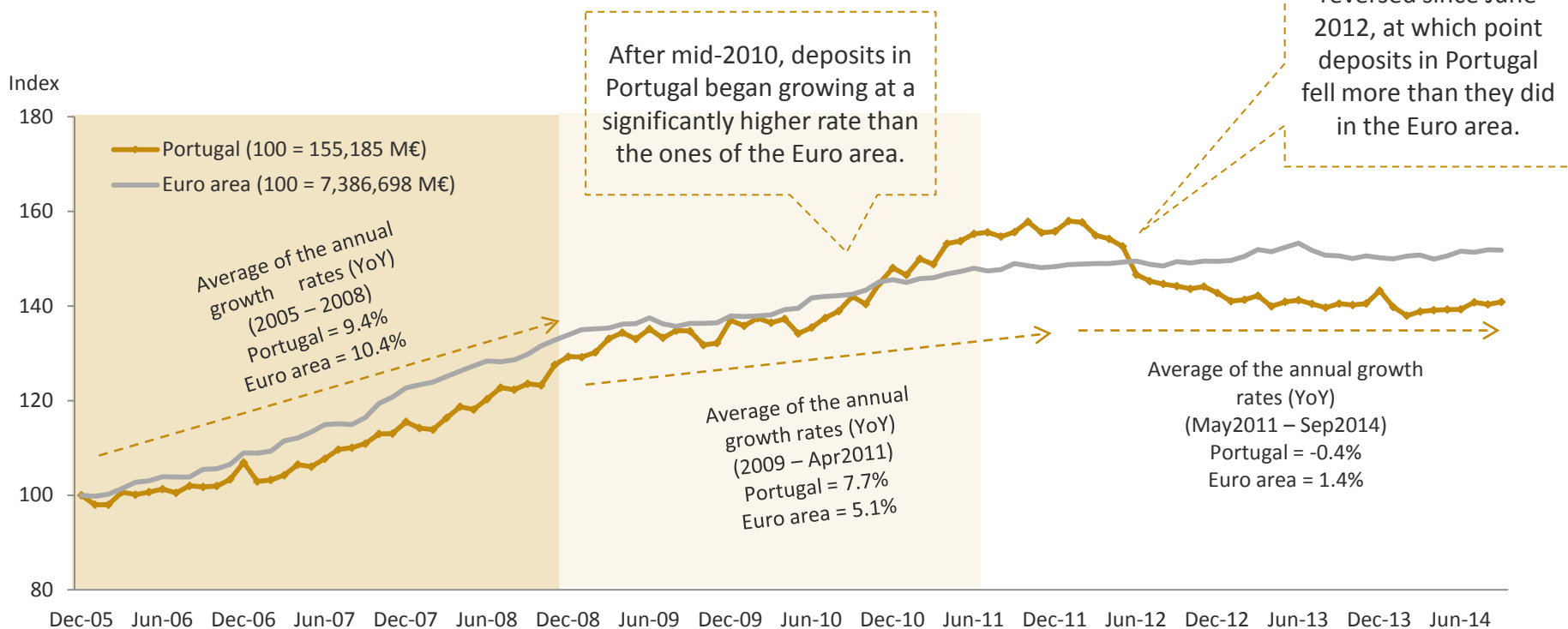
In the European context, the Portuguese banking system has one of the largest shares of deposits from customers in the financing structure. Compared to deposits from customers, wholesale funding plays a less important role.

\* Includes external liabilities, i.e., liabilities issued by non-residents in the Euro area, except in the UK where it refers to liabilities issued by non-residents in the country.

Source: ECB

# The trend followed by deposits from customers in Portugal reveals some differences compared with the Euro area.

**Evolution of deposits\* in Portugal and in the Euro area (Dec. 2005=100)**

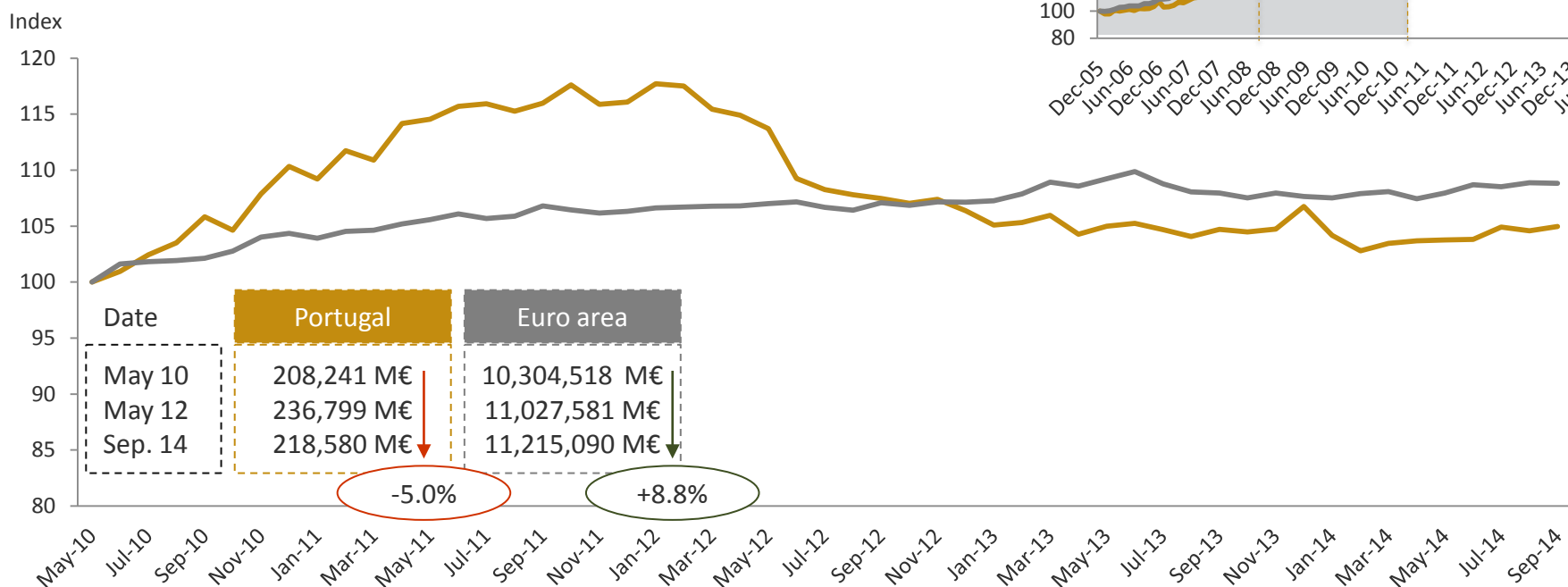


\* Deposits from the non-monetary sector (outstanding amounts at the end of period).

Source: ECB

More recently the volume of the deposits both in Portugal and in the Euro area has remained relatively constant.

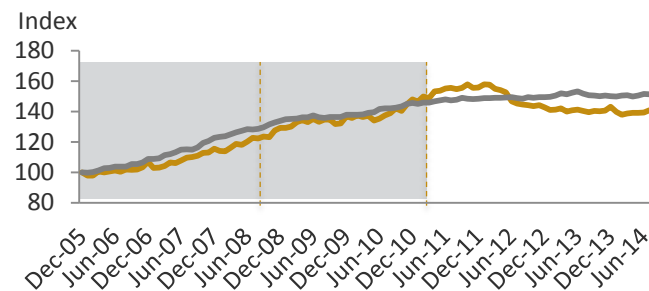
**Evolution of deposits\* in Portugal and in the Euro area (May 2010=100)**



\* Deposits from the non-monetary sector (outstanding amounts at the end of period).

Source: ECB

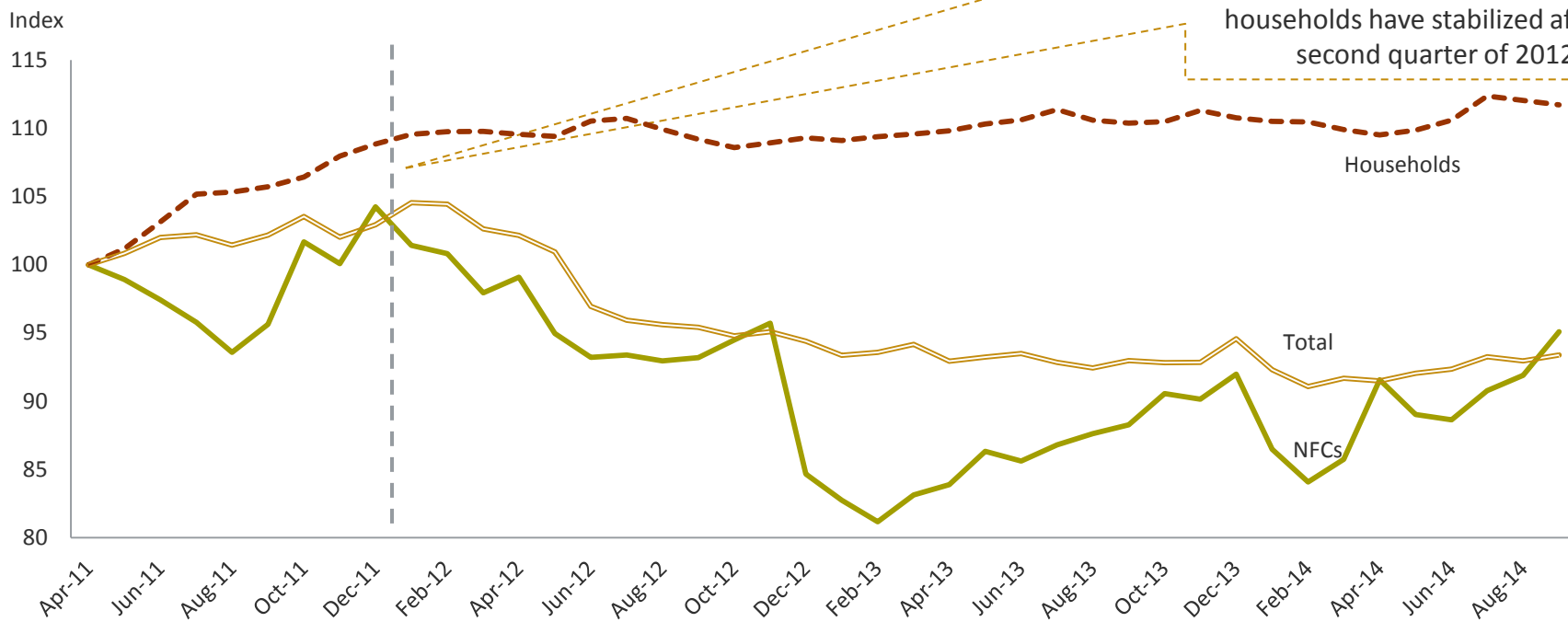
**Trends in deposits\* in Portugal and in the Euro area (Dec. 2005=100)**



# In spite of the austerity imposed by the Adjustment Programme deposits from households continued to grow one year following its implementation.

**Evolution of deposits\* in Portugal, by institutional sector (Apr. 2011 = 100)**

Since the beginning of 2012, Portuguese non-financial corporations have been reducing their amount of deposits due to difficult financial positions. This trend has been driving down the total amount of deposits in Portuguese banks, since deposits from households have stabilized after the second quarter of 2012.

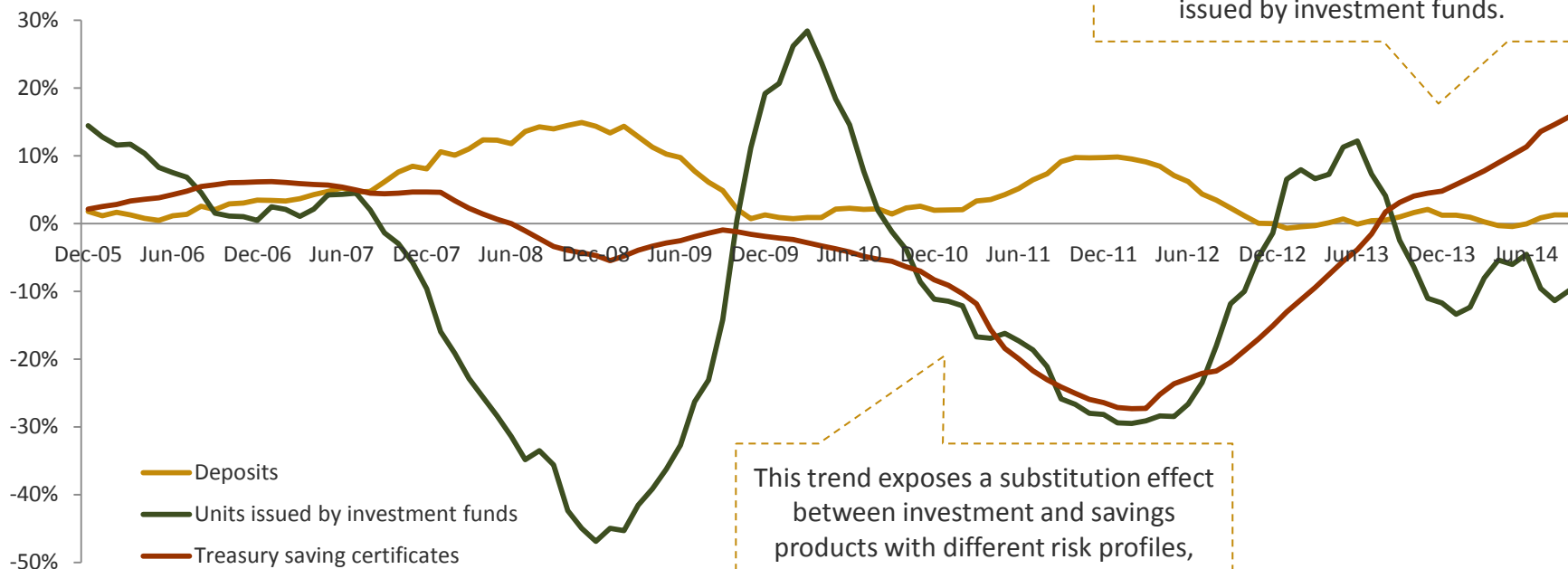


\* Deposits from the non-monetary sector (outstanding amounts at the end of period).

Source: Banco de Portugal

During 2011, the growth in deposits from households coincided with the decrease of their ownership of units issued by investment funds.

**Growth rates of households' deposits, units issued by investment funds and savings certificates, in Portugal (YoY)**



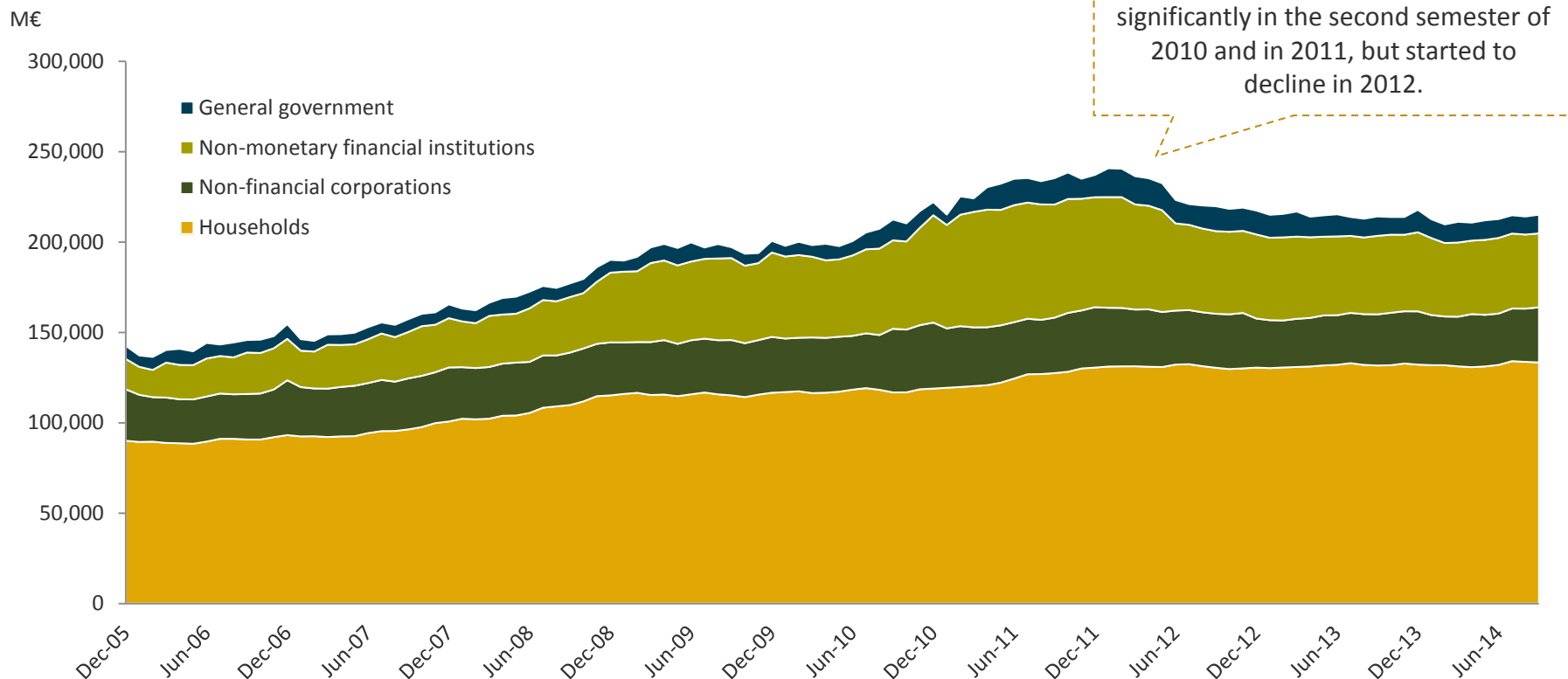
Whereas bank deposits are stabilized since end-2012, Treasury savings certificates have gained popularity more recently in detriment of units issued by investment funds.

This trend exposes a substitution effect between investment and savings products with different risk profiles, revealing a larger preference for less risky assets after the financial crisis.

Source: Banco de Portugal

In Portugal, deposits are mainly held by households and their share has been consistently increasing.

### Evolution of deposits\* in Portugal, by institutional sector



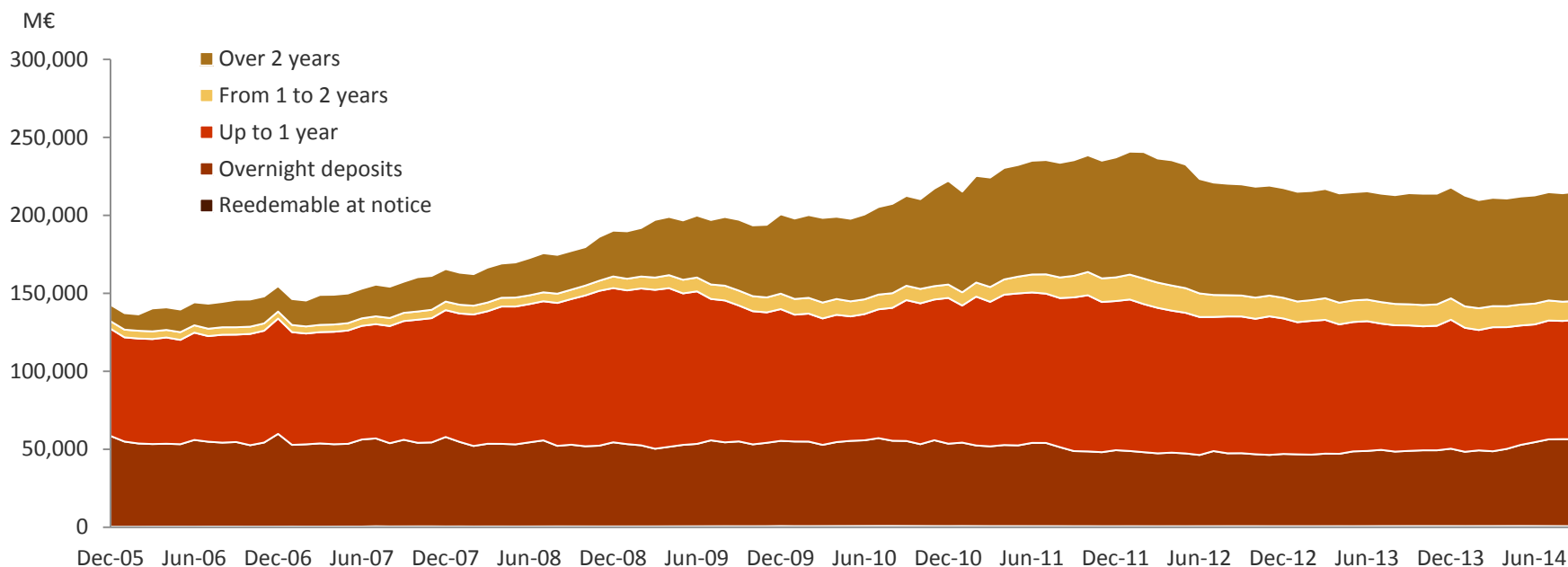
\* Deposits from the non-monetary sector (outstanding amounts at the end of period).

Source: Banco de Portugal



Deposits with maturities of less than one year are the most notable, in spite of the recent growth in the share of deposits with longer maturities.

### Evolution of deposits\* in Portugal, by maturity

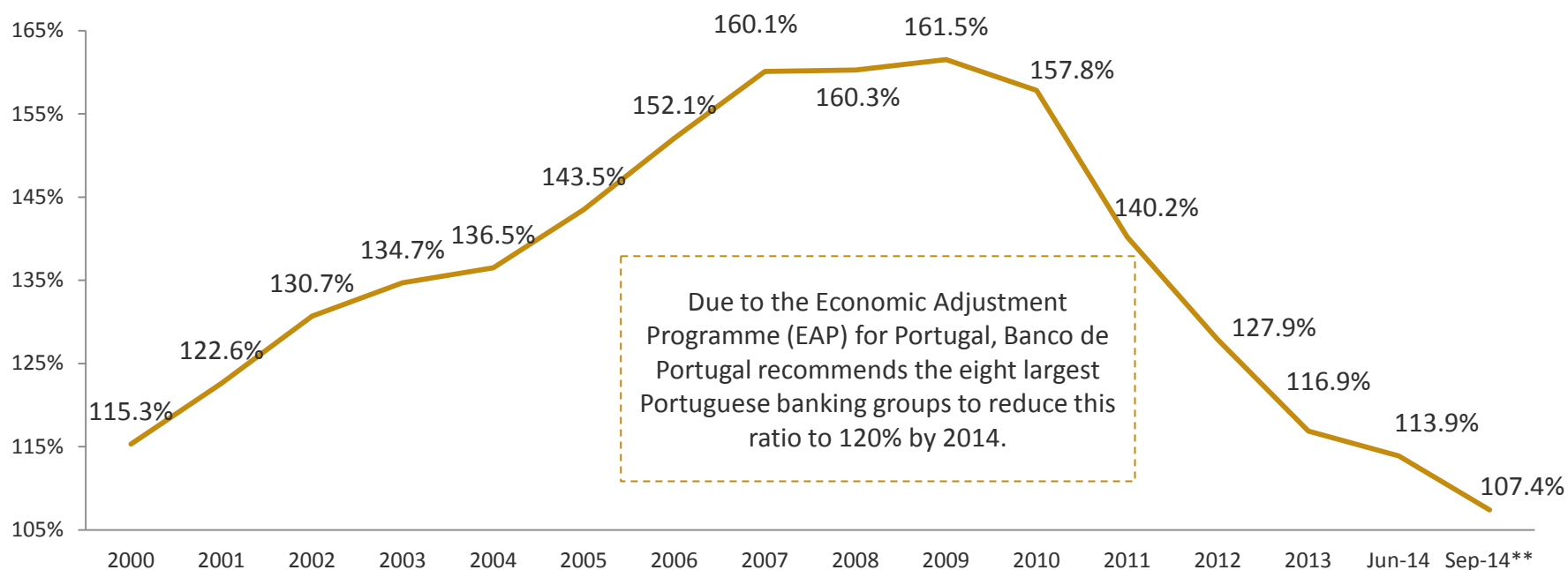


\* Deposits from the non-monetary sector (outstanding amounts at the end of period).

Source: Banco de Portugal

## The decrease of the Loan-to-Deposit Ratio reflects the deleveraging of the Portuguese banking sector.

### Loan\*-to-Deposit Ratio, on a consolidated basis



\* Credit volumes net of impairments (includes securitized non-derecognized credit). Outstanding amounts at the end of period.

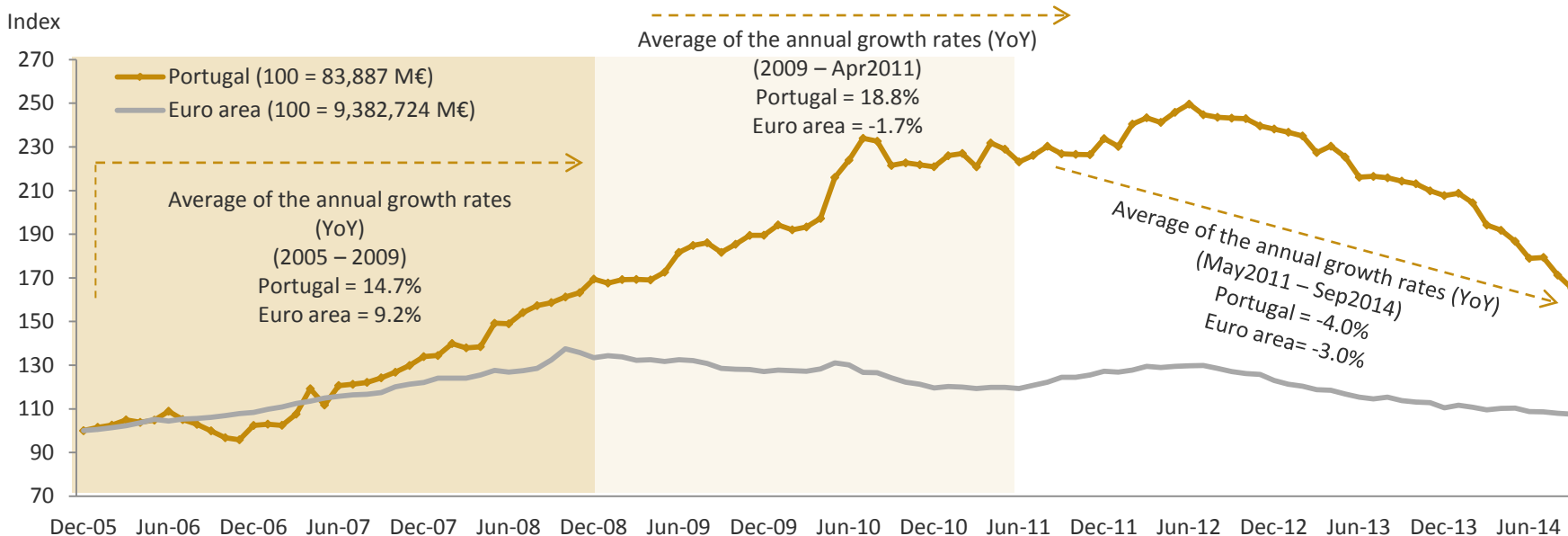
\*\* Excludes Novo Banco due to unavailability of accounting and prudential data.

Source: Banco de Portugal

The use of wholesale funding among Portuguese banks grew at a significantly higher rate when compared with the Euro area. This trend was reversed in the past few years.

**Evolution of wholesale funding\* in Portugal and in the Euro area (Dec. 2005=100)**

The growth of deposits in Portugal was not sufficient to compensate the growth of national banks' assets, leading to a higher dependence on wholesale funding.

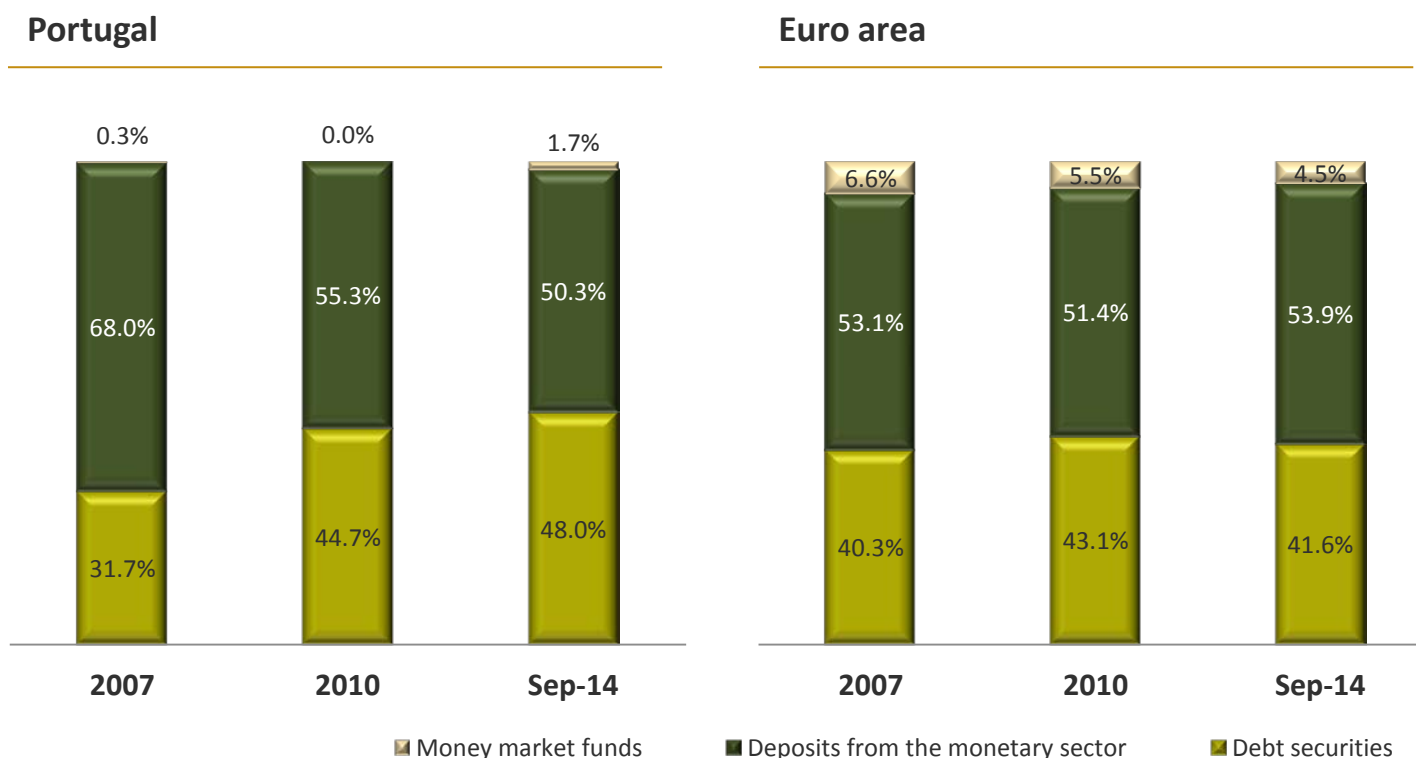


\* Wholesale includes deposits from the monetary sector, debt securities issued and money market funds (outstanding amounts at the end of period).

Source: ECB

Both in Portugal and in the Euro area, deposits from the monetary sector are the main component of the wholesale funding of the banking sector.

**Structure of wholesale funding, by type of instrument**



However, the weight of the debt securities market on the wholesale funding structure has increased in Portugal since 2007. Currently, this type of instrument is more predominant in Portuguese banks than in their Euro area peers.

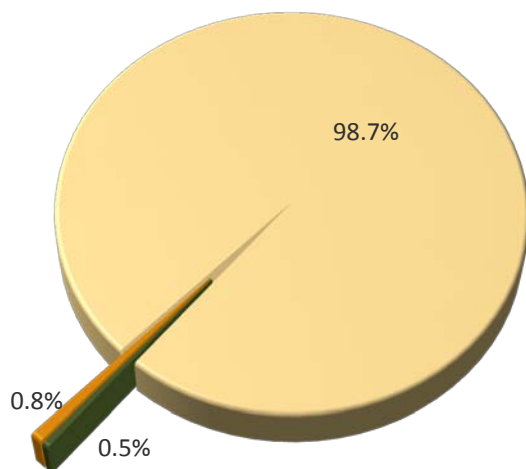
Source: ECB

■ Money market funds    ■ Deposits from the monetary sector    ■ Debt securities

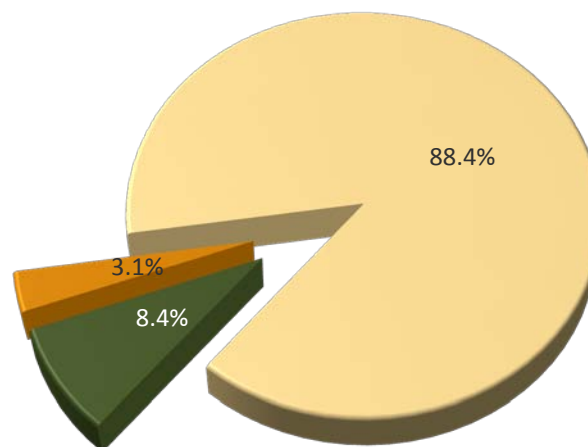
In Portugal as well as in the Euro area, debt securities issued by banks are mainly long-term.

**Structure of debt securities, by maturity at issue date (September 2014)**

**Portugal**



**Euro area**



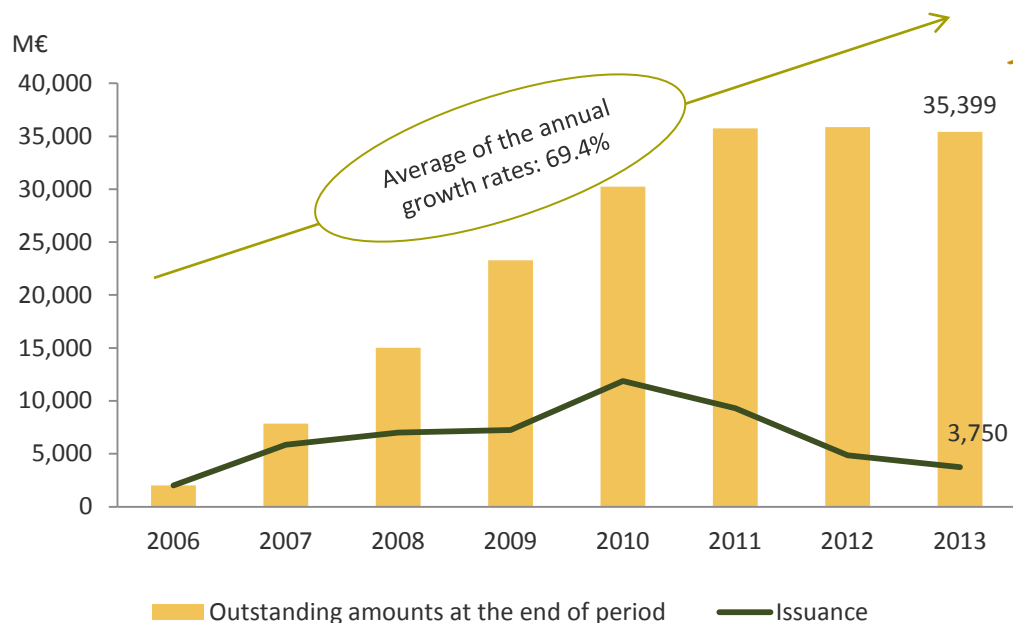
■ Up to 1 year ■ From 1 to 2 years ■ Over 2 years

Still, the issuance of short-term debt securities plays a more important role within the Euro area banking sector than in Portugal.

Source: ECB

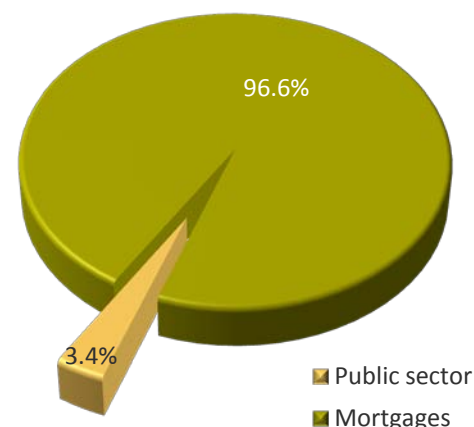
Until 2011, covered bonds became an increasingly important funding source for Portuguese banks. However, more recently the amount issued has been decreasing.

### Issuance and outstanding amounts of covered bonds in Portugal



At the end of 2013, the outstanding amount of covered bonds represented approximately 6.9% of Portuguese banks' funding.

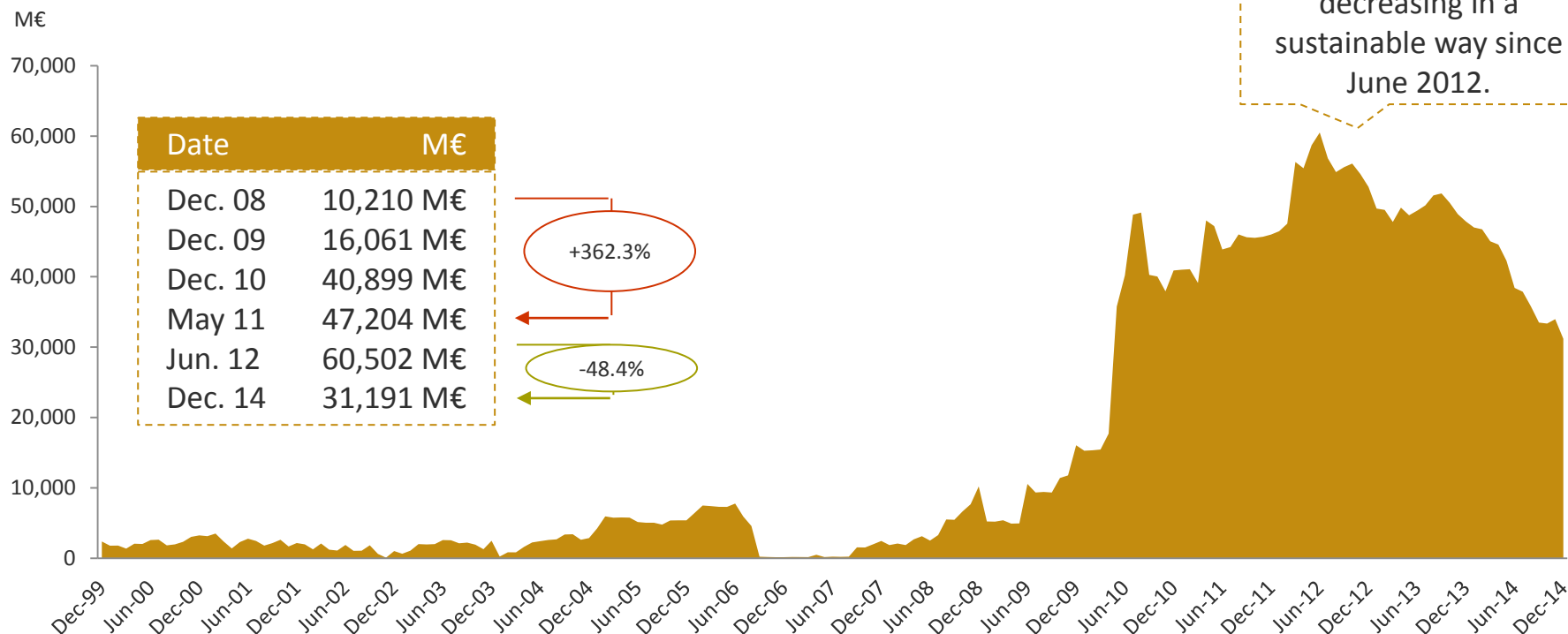
### Covered bonds by type of underlying asset (2013)



Source: European Covered Bond Council, Factbook, 2014

# Restrictions of access to interbank financial markets led to an increase of Portuguese banks' dependency on ECB.

**Liquidity-providing operations from the European Central Bank to Portuguese banks\***



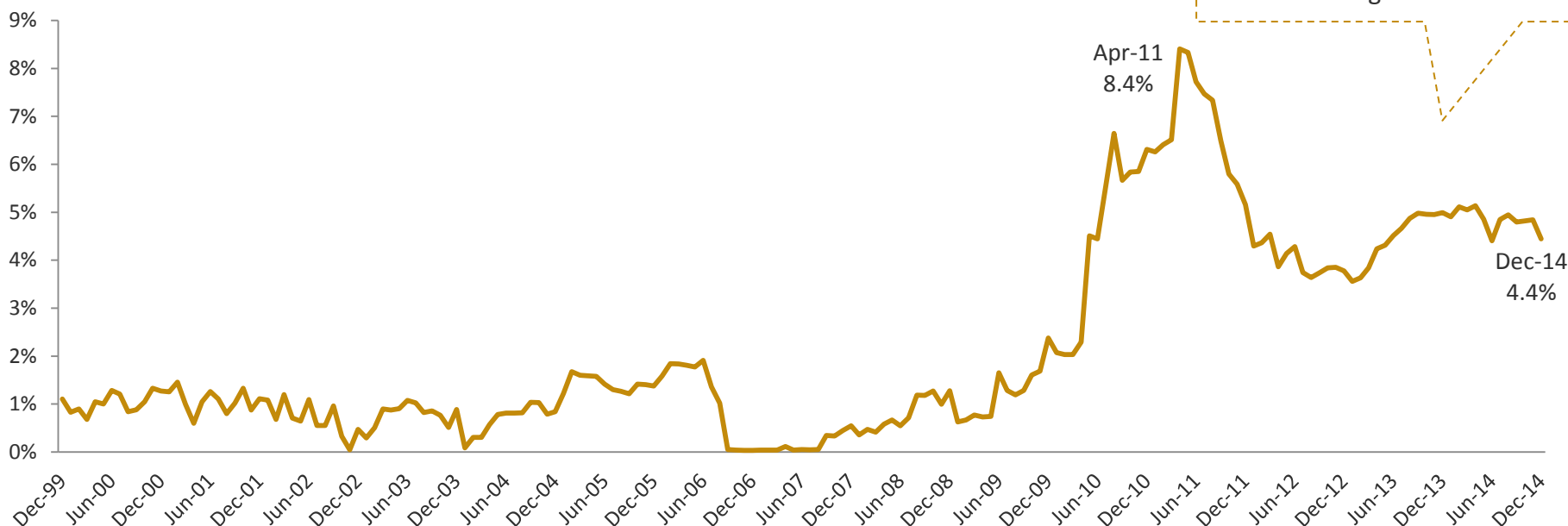
However, the volume of liquidity-providing operations has been decreasing in a sustainable way since June 2012.

\* Outstanding amounts at the end of period.

Source: Banco de Portugal

In percentage, the share of Portuguese banks on the total amount of the ECB's liquidity-providing operations increased since 2010.

**Share of Portuguese banks in the total amount of ECB's liquidity-providing operations\***



\* Percentage of liquidity-providing operations to Portuguese banks from the total amount provided by the Eurosystem to Euro area countries (outstanding amounts at the end of period).

Source: Banco de Portugal, ECB

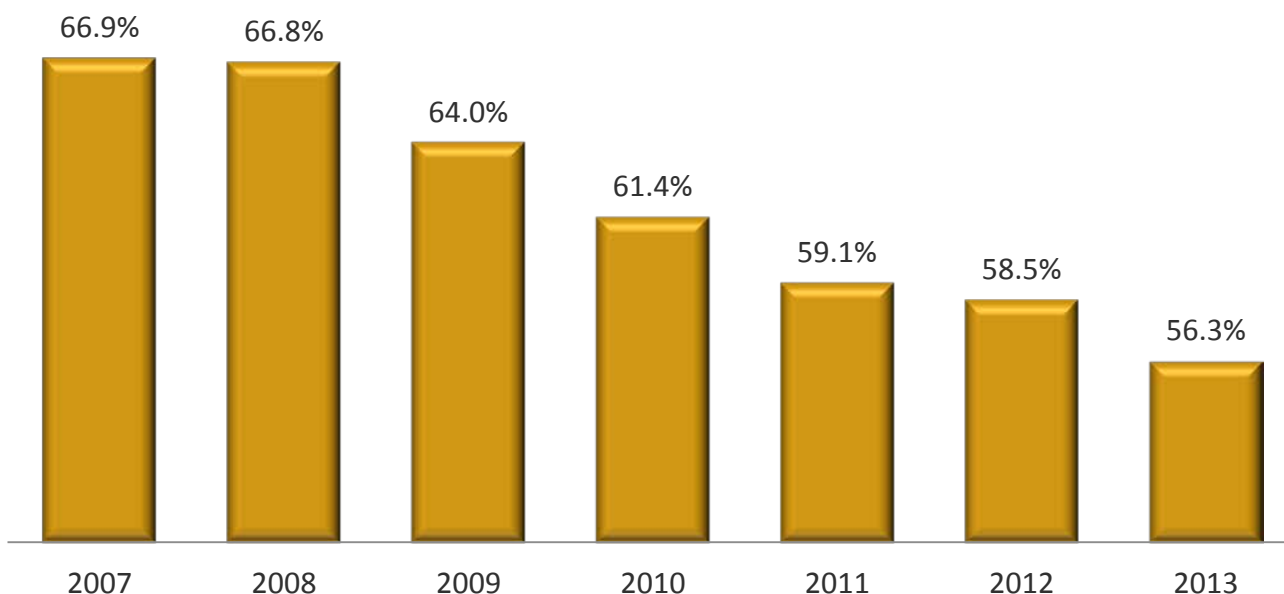


# PORTUGUESE BANKING SECTOR OVERVIEW

## IV. Solvency

The level of risk of the Portuguese banking assets has been decreasing over the years.

**Risk weighted assets over total assets\***



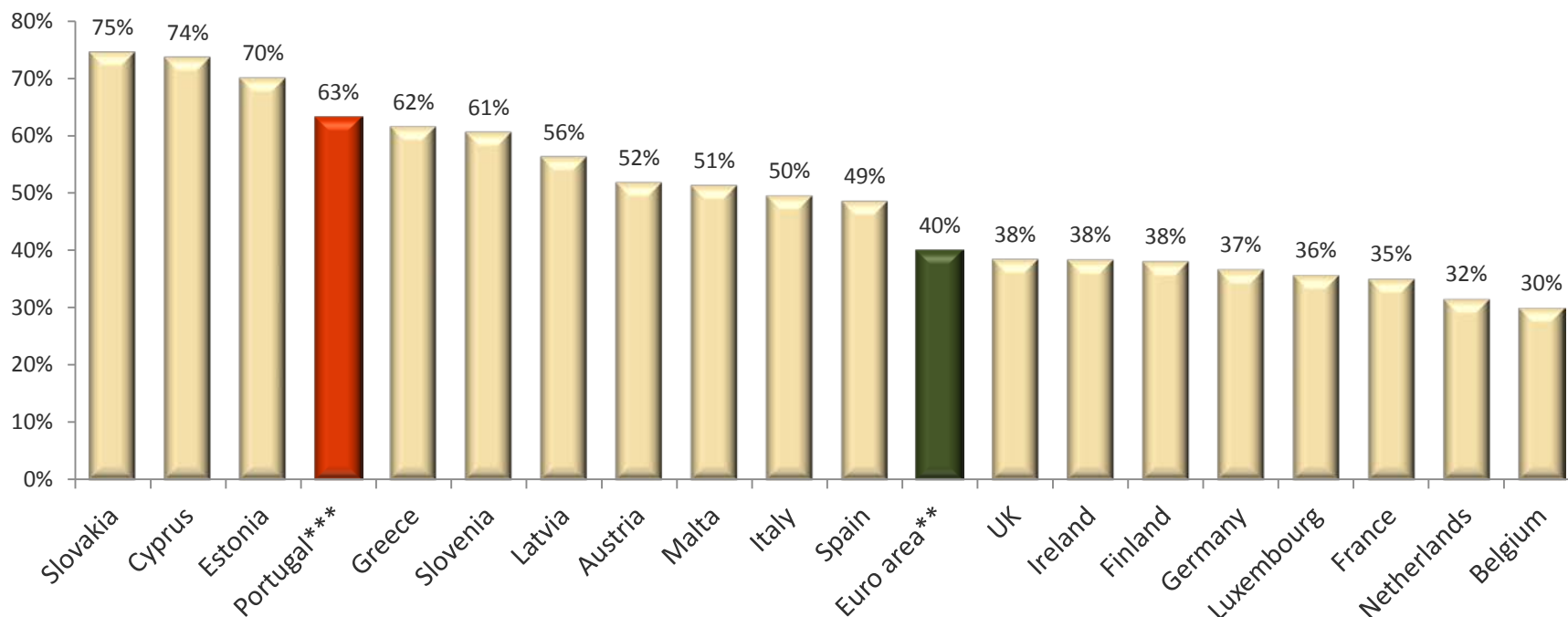
The ratio Risk Weighted Asset / Total Assets of the Portuguese Banks decreased substantially in the last few years. This trend accelerated after the EAP and reflects a reduction in the average risk of the assets which constitute the balance sheet of the Portuguese Banks.

\* The risk weighted assets include include off balance sheet items  
Data on a consolidated basis

Source: Banco de Portugal

However, the ratio of Risk Weighted Assets over Total Assets of the Portuguese Banking System is above the euro area average.

**Risk weighted assets over total assets\* (June 2014)**



\* The risk weighted assets include off balance sheet items, Data for the portuguese banking sector, on a consolidated basis.

\*\* Euro area with 18 countries.

\*\*\* The data for Portugal differs from the previous slide due to minor differences between the methodological approaches used by the ECB and by Banco de Portugal.

Source: ECB

# Total assets have been showing higher growth rates compared to risk weighted assets.

**Trend in Portuguese banks' risk weighted assets and total assets\* (Dec. 2007=100)**

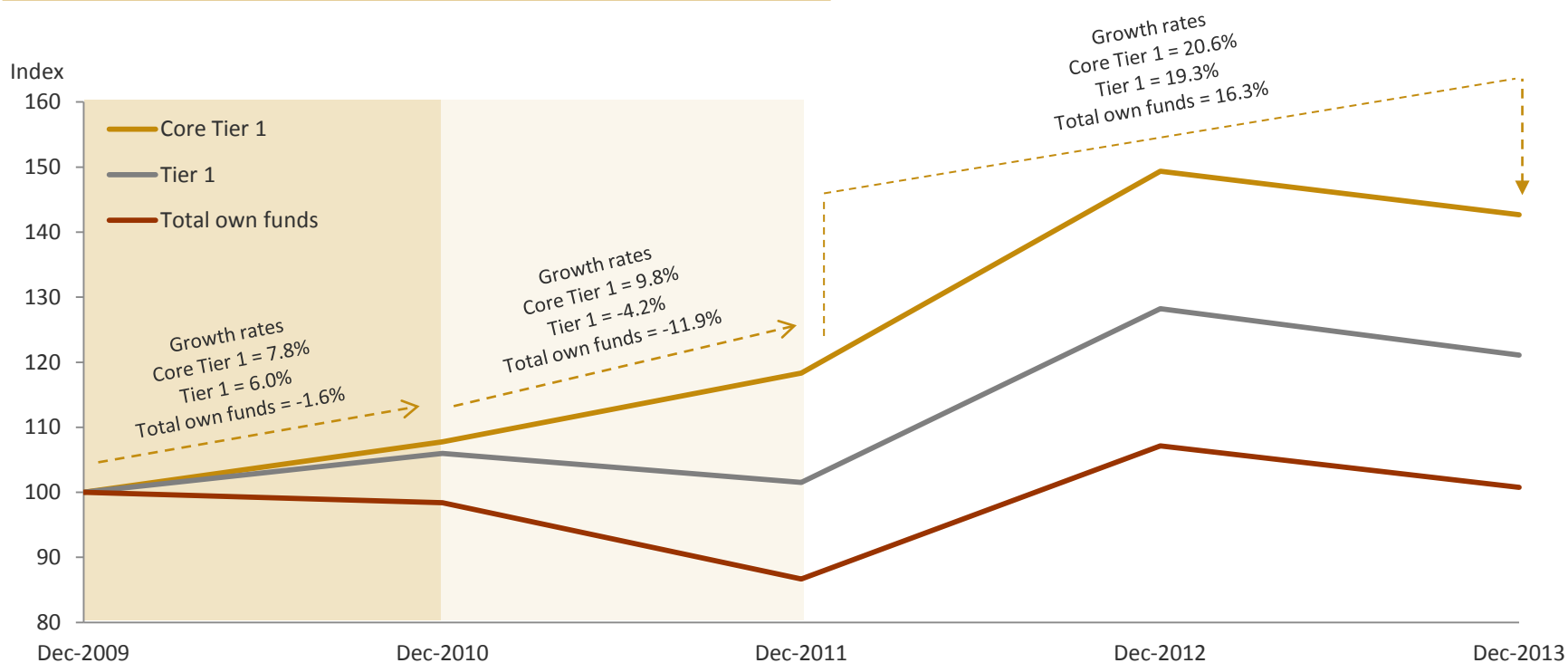


\* Data for the Portuguese banking sector, on a consolidated basis which excludes insurance companies.

Source: Banco de Portugal

# Portuguese bank's better quality capital, common equity Tier 1, increased significantly since 2009.

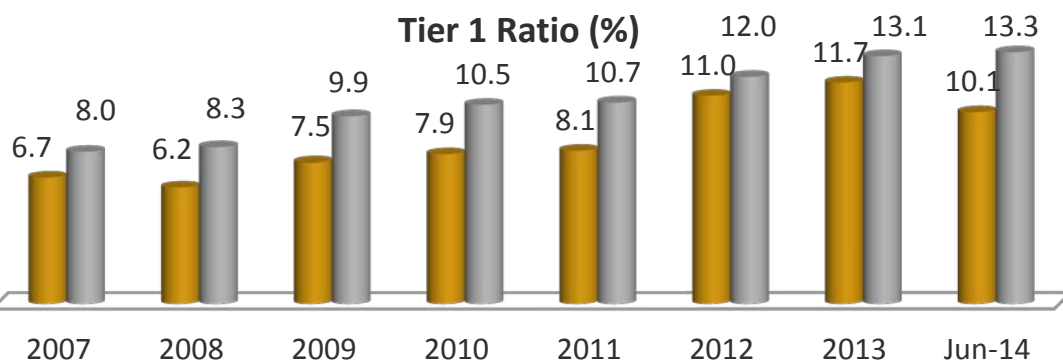
**Trend in Portuguese banks' own funds\* (Dec. 2009=100)**



\* Data for the Portuguese banking sector, on a consolidated basis which excludes insurance companies.

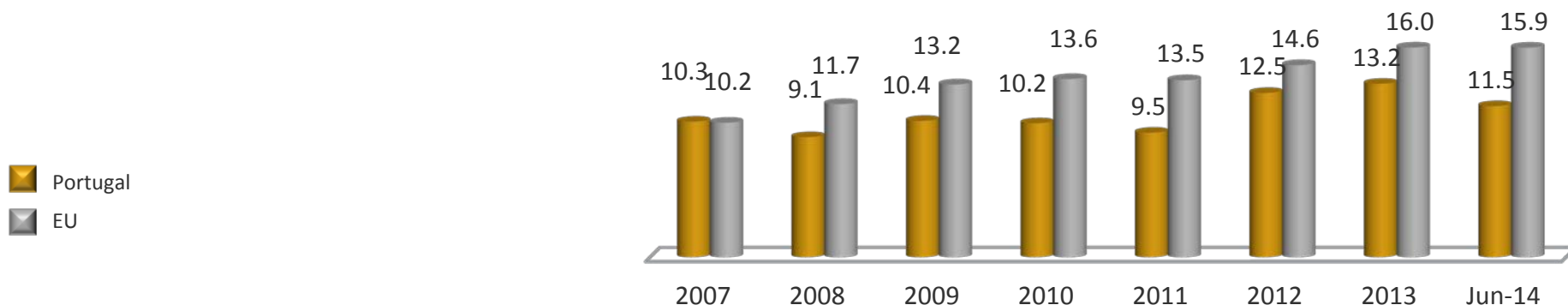
Source: Banco de Portugal

Historically, the capital ratios of Portuguese banks have stayed above the minimum legal requirements.



The Basel II Agreement required financial institutions to maintain a Tier 1 Ratio equal or above 4% and an Overall Solvency Ratio not below 8%. The new regulatory framework adopted after Basel III agreement, in effect since January 2014, focuses on the Common Equity Tier 1 Ratio. In 2014, and in compliance with the transitory regime established by the CRD IV/CRR, the new requirements are 5.5% for the Tier 1 Ratio and 8% in what concerns the Overall Solvency Ratio.

**Overall Solvency Ratio (%)**

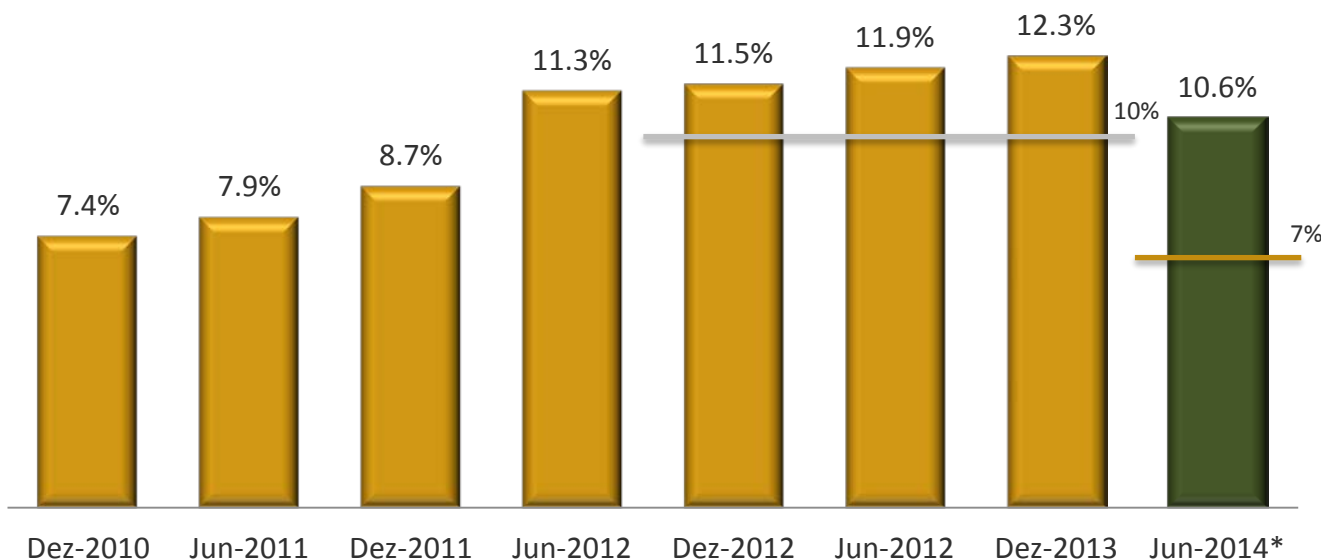


\* Data for domestic banking groups and stand-alone banks, on a consolidated basis which excludes insurance companies.

Source: ECB

Portuguese banks' solvency position improved substantially since 2011 allowing the new CET 1 Ratio to be comfortably above the minimum requirements.

### Core Tier 1 Ratio



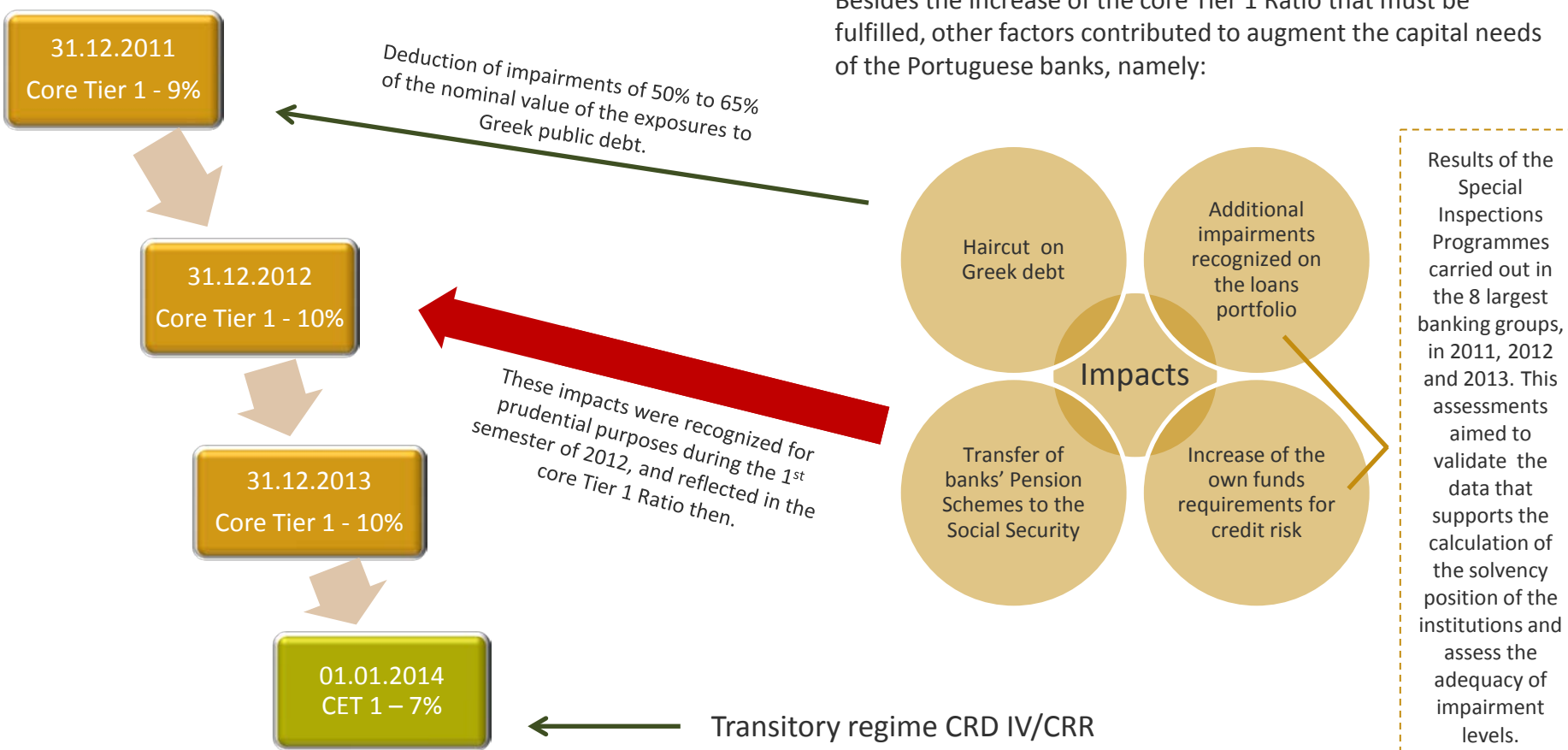
Since the beginning of 2014, Portuguese banks are obliged to fulfil the new transitory regime of own funds adequacy established by the CRD IV/CRR which requires a minimum Common Equity Tier (CET) 1 Ratio of 7%. Until end-2013, Portuguese banks had to comply with a 10% minimum Core Tier 1 Ratio imposed by Banco de Portugal.

\* CET 1 Ratio calculated according to the new transitory regime established by the CRD IV/CRR.

Source: Banco de Portugal

# Portuguese banks faced new capital requirements within the scope of the Economic and Financial Assistance Program.

Besides the increase of the core Tier 1 Ratio that must be fulfilled, other factors contributed to augment the capital needs of the Portuguese banks, namely:



Source: APB, Banco de Portugal



# PORTUGUESE BANKING SECTOR OVERVIEW

## V. State Guarantee and Recapitalisation Schemes for Credit Institutions

## Timeline of the Portuguese State guarantee and recapitalisation schemes for credit institutions before the beginning of EAP.



### Guarantee Scheme

- |   |  |   |  |   |   |
|---|--|---|--|---|---|
| <ul style="list-style-type: none"> <li>• Scheme approved till Dec 2009</li> <li>• EUR 20 B</li> </ul> | <ul style="list-style-type: none"> <li>• Budget changed</li> <li>• EUR 16 B</li> </ul> | <ul style="list-style-type: none"> <li>• Extension till Jun 2010</li> <li>• Budget changed</li> <li>• EUR 9.15 B</li> </ul> |  | <ul style="list-style-type: none"> <li>• Extension till Dec 2010</li> </ul> | <ul style="list-style-type: none"> <li>• Extension till Jun 2011</li> </ul> |
|---|--|---|--|---|---|

### Recapitalisation Scheme

- |  |  |  |   |   |   |
|--|--|--|---|---|---|
|  | <ul style="list-style-type: none"> <li>• Scheme approved till Nov 2009</li> <li>• EUR 4 B</li> </ul> |  | <ul style="list-style-type: none"> <li>• Extension till Jun 2010</li> <li>• Budget changed</li> <li>• EUR 3 B*</li> </ul> | <ul style="list-style-type: none"> <li>• Extension till Dec 2010</li> </ul> | <ul style="list-style-type: none"> <li>• Extension till Jun 2011</li> </ul> |
|--|--|--|---|---|---|

Law nº  
60-A/2008

Law nº  
63-A/2008

Law nº  
3-B/2010

\* The usage of both schemes cannot exceed EUR 9.15 B.

Source: APB, European Commission – DGCOMP, Portuguese Ministry of Finance (DGTF)

## Timeline of the Portuguese State guarantee and recapitalisation schemes for credit institutions after the beginning of EAP.



### Guarantee Scheme

- Extension Dec 2011
- Budget changed
- EUR 35 B

- Extension until Jun 2012

- Extension until Dec 2012

- Extension Jun 2013

- Extension until Dec 2013

- Extension until Jun 2014

- Extension until Dec 2014

### Recapitalisation Scheme

- Extension Dec 2011
- Budget changed
- EUR 12 B



- Extension until Dec 2012

- Extension until Dec 2013

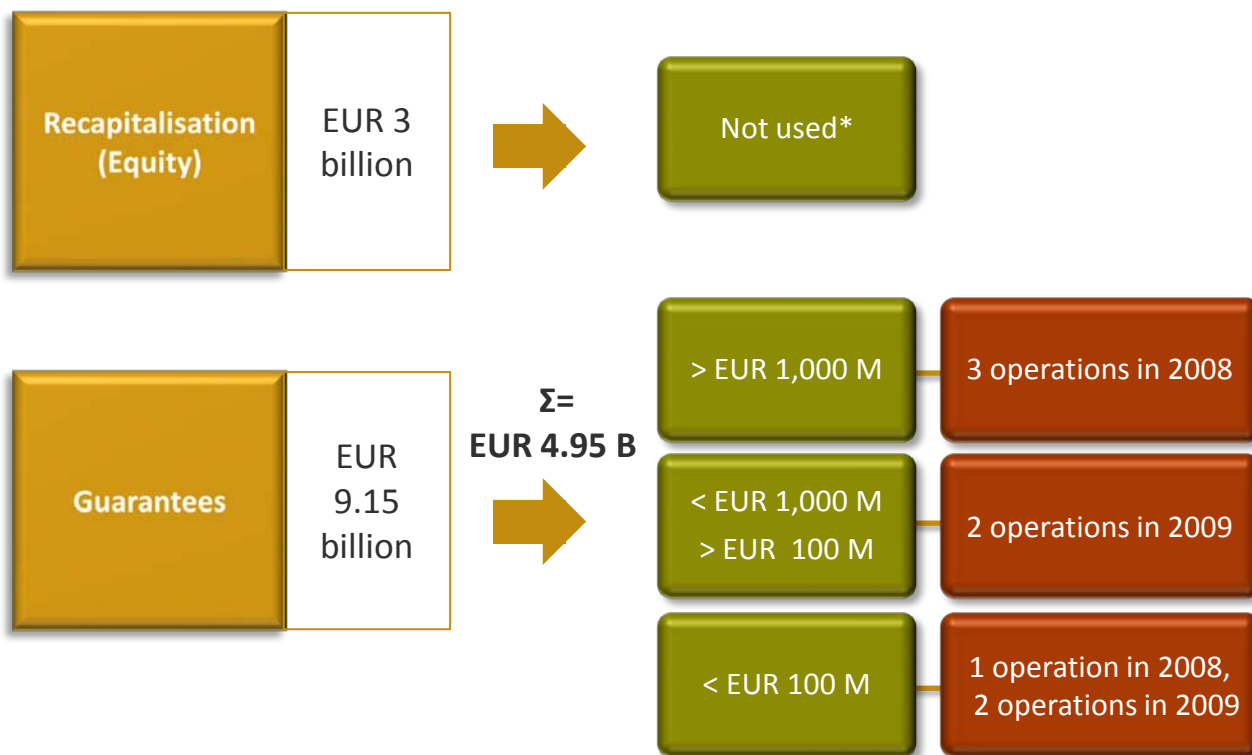


Law nº  
48/2011  
Law nº  
4/2012

Source: APB, European Commission – DGCOMP, Portuguese Ministry of Finance (DGTF)

# Portuguese banks went through the financial crisis without any State support in terms of recapitalisation...

## State Support Scheme used until end of June 2011



By the end of June 2011:

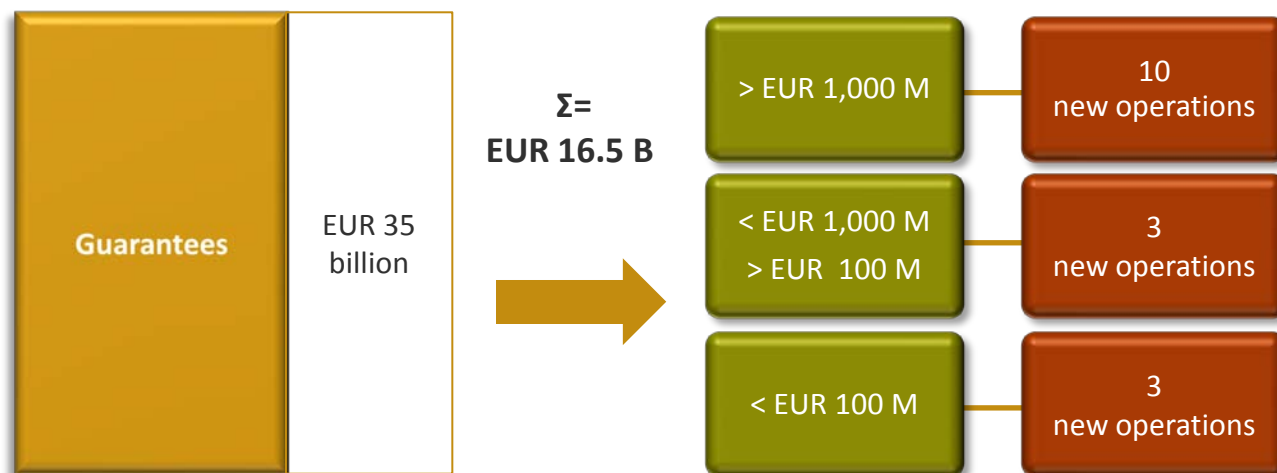
- 6 banks (of which, CGD is State-owned) had used the State guarantee scheme;
- 2 operations that amounted to EUR 75 M were over (one in 2009 and the other in 2010);
- Outstanding guarantees totaled up to EUR 4,875 M, which corresponded to 53% of the budget.

\* Not used by privately owned banks. In December 2010, CGD increased its capital by EUR 550 M, from which EUR 56 M were from the scheme budget.

Source: APB, European Commission – DGCOMP, Portuguese Ministry of Finance (DGTF)

... meanwhile, the public debt crisis lead to the increase in the usage of guarantees from the State.

**Guarantees Scheme used since July 2011**

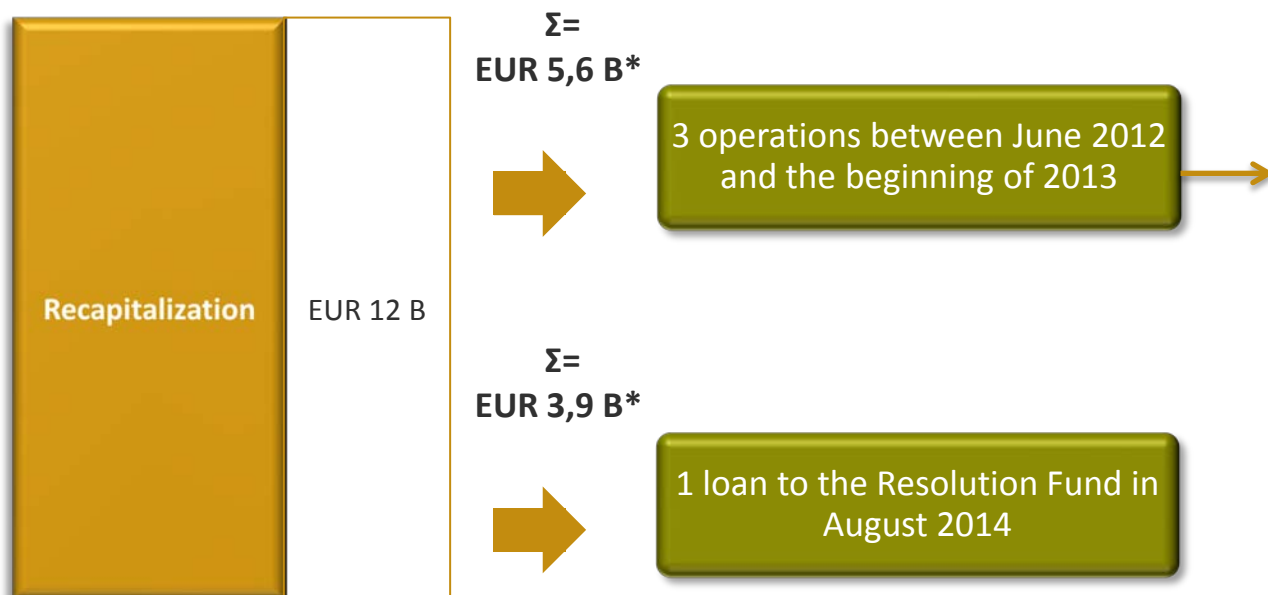


- Since July 2011:
  - **6 banks** used the State guarantee scheme for new financing operations;
  - New operations amounted to **EUR 16.525 B**, which corresponds to **47.2%** of the budget.

Source: APB, European Commission – DGCOMP, Portuguese Ministry of Finance (DGTF)

The usage of the Recapitalization Scheme occurred subsequently, to comply with the rules imposed by Banco de Portugal and by EBA.

### Recapitalization Scheme usage



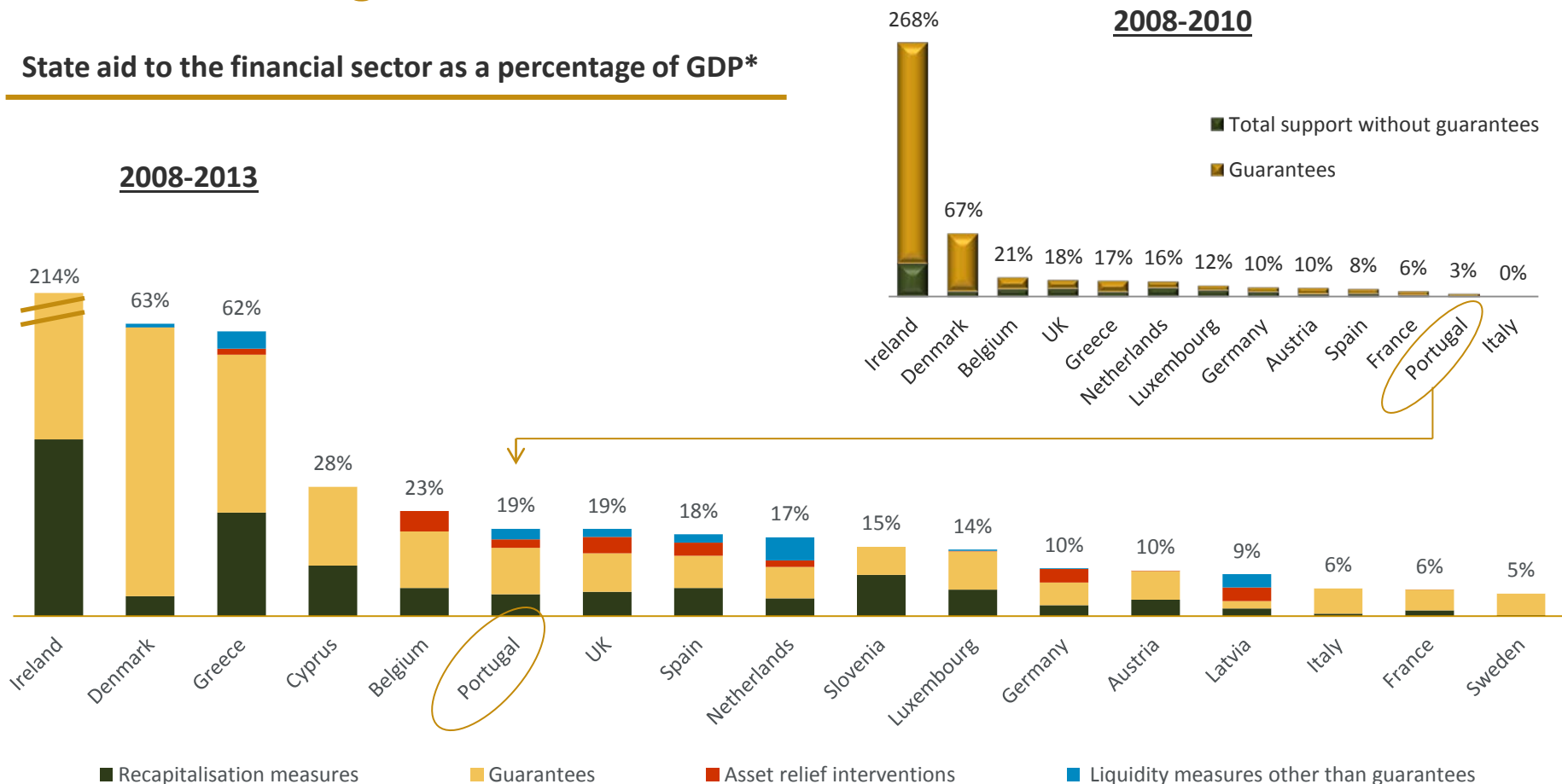
- By the end of December 2014, the banks that had used the Recapitalization Scheme had reimbursed EUR 4,025 B. The outstanding amount at that date was EUR 1.575 B.

\* Does not include the recapitalization of CGD, in June 2012, that amounted to EUR 1.65 billion.

Fonte: APB, Comissão Europeia – DGCOMP, Direcção Geral do Tesouro e Finanças

Until 2010, Portuguese banks usage of state aid was 3% of the GDP, increasing to 19% in 2013.

**State aid to the financial sector as a percentage of GDP\***

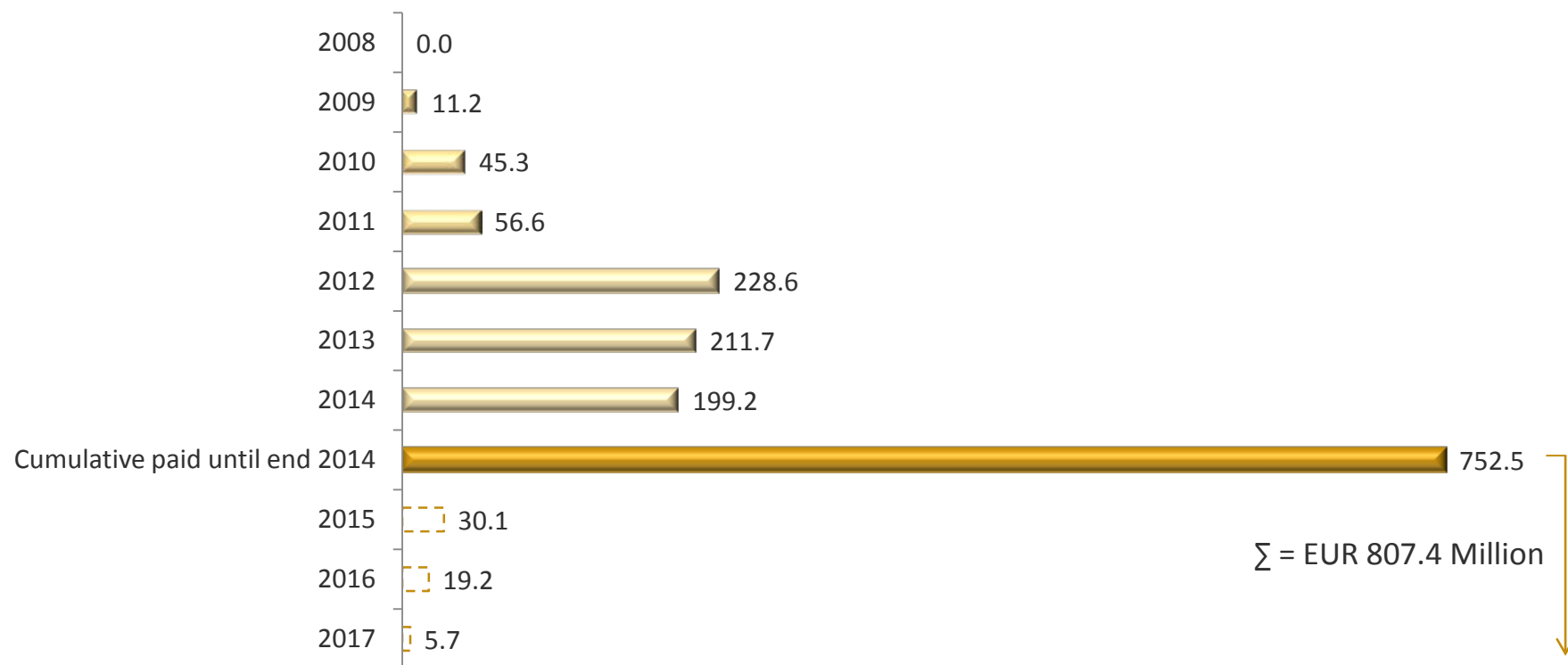


\* Data for guarantees and other liquidity measures refer to 2009, year when the use of these instruments by EU countries hit its peak.

Source: European Commission

# Commissions paid and due upon access of the State guarantee scheme.

## Annual commissions paid and due\* (EUR Million)



\* Estimates.

Source: APB, Portuguese Ministry of Finance (DGTF)



# PORTUGUESE BANKING SECTOR OVERVIEW

## VI. Profitability

The profitability of the Portuguese banking assets has been decreasing since the European financial crisis of 2008, not following the European recovery.

**Return on Assets\***

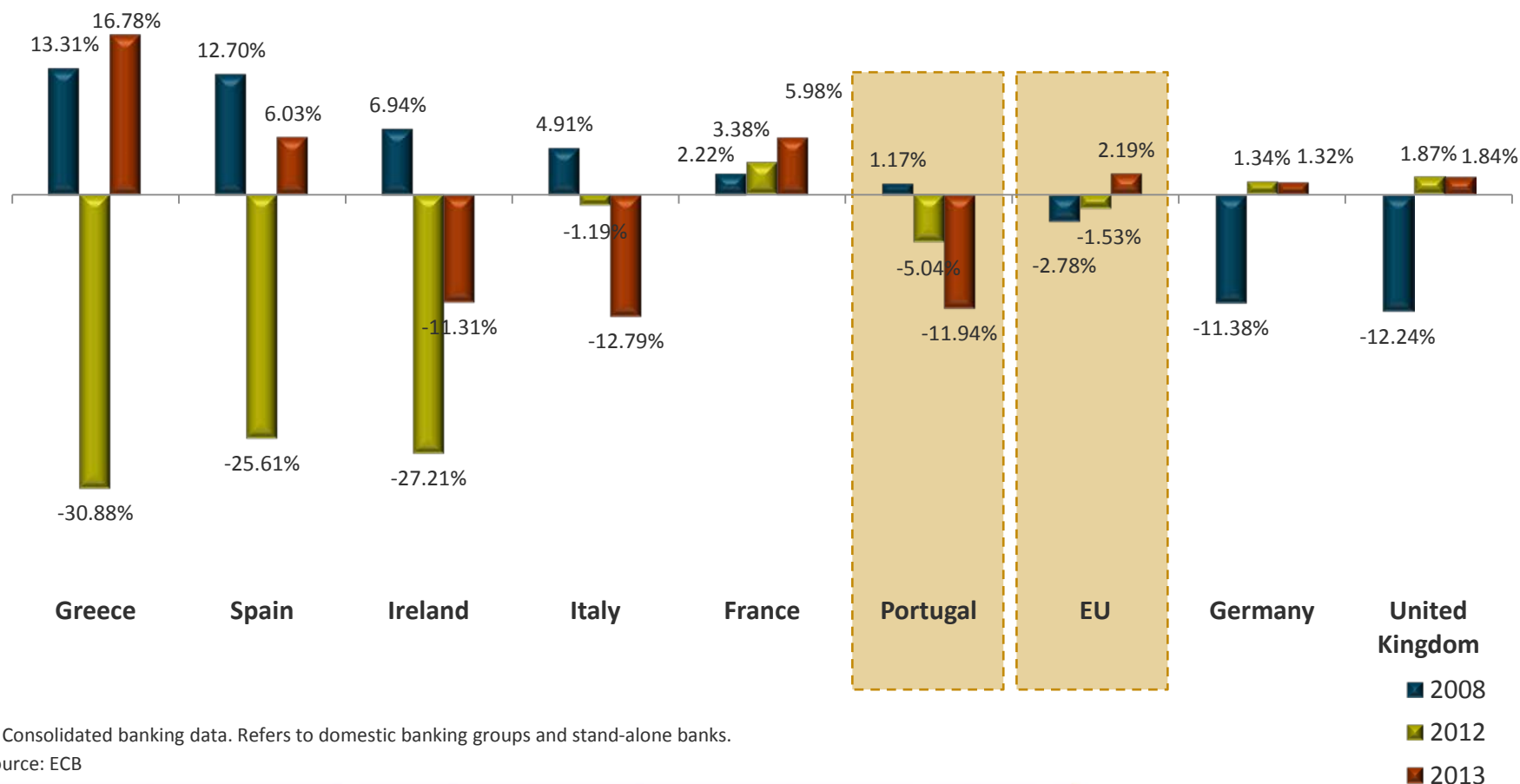


\* Consolidated banking data. Refers to domestic banking groups and stand-alone banks.

Source: ECB

A similar scenario is observed when assessing the return on equity of Portuguese and several European banks.

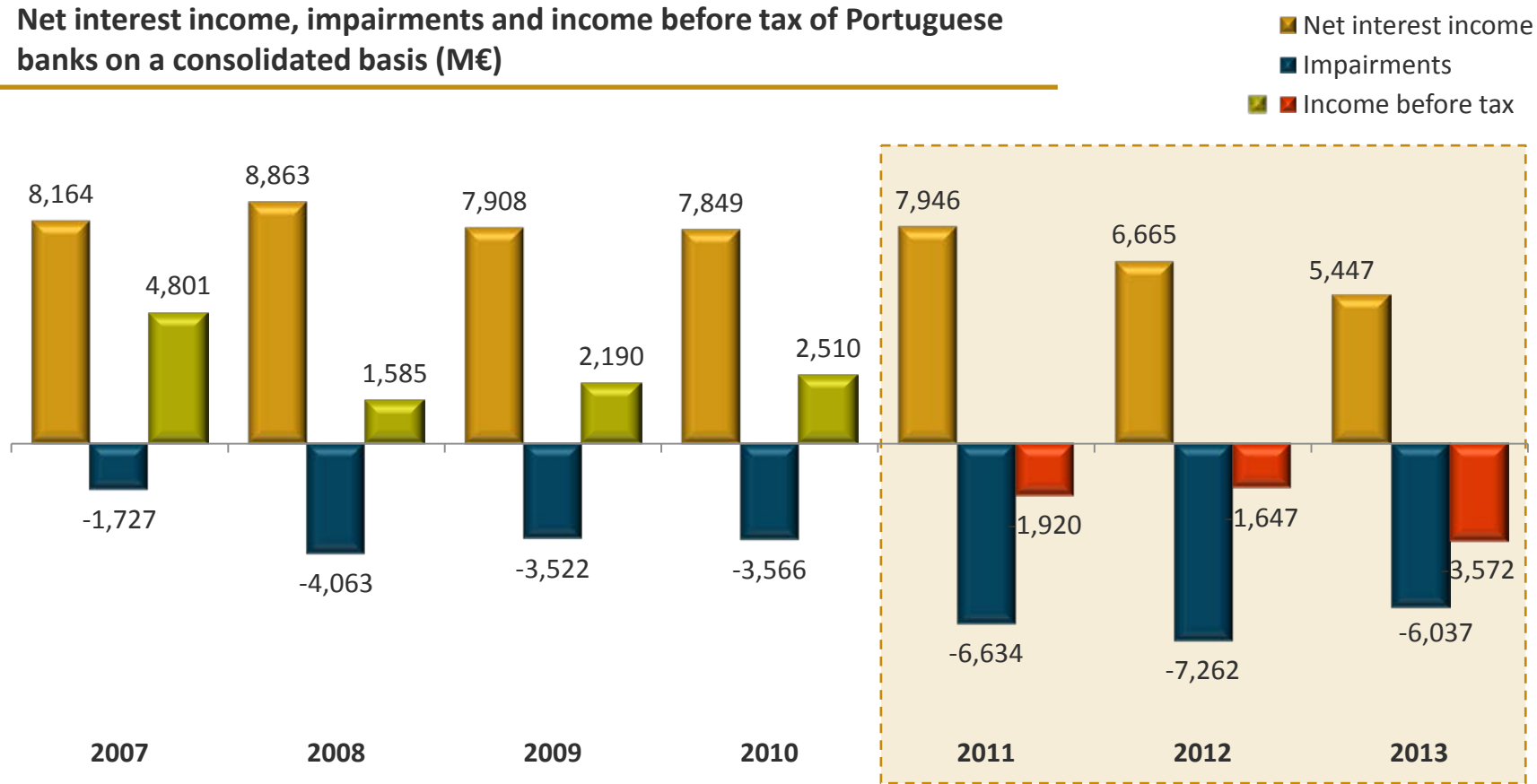
**Return on Equity\***



\* Consolidated banking data. Refers to domestic banking groups and stand-alone banks.  
Source: ECB

The growth of credit risk in Portugal lead to an increase of impairments recorded by banks, which affected their results.

**Net interest income, impairments and income before tax of Portuguese banks on a consolidated basis (M€)**



Source: Banco de Portugal

Since 2011, Banco de Portugal has conducted several inspections to the largest Portuguese banks to assess they have an adequate level of impairments.

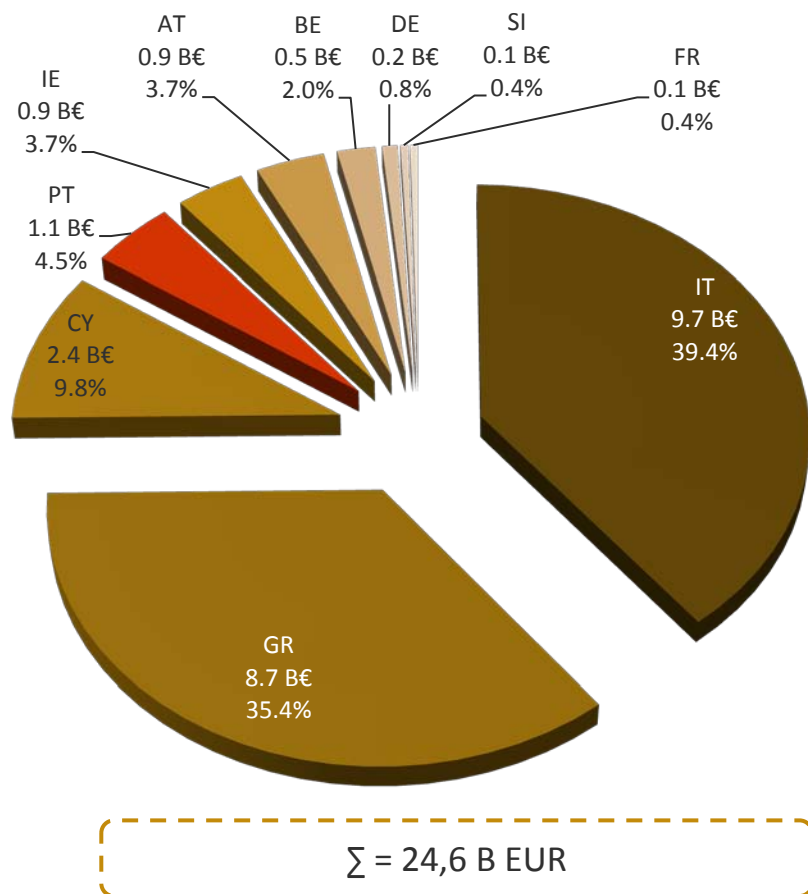
	1 <sup>st</sup> Exercise 2 <sup>nd</sup> semester 2011	2 <sup>nd</sup> Exercise 2 <sup>nd</sup> semester 2012	3 <sup>rd</sup> Exercise Jun-Jul 2013	4 <sup>th</sup> Exercise Out 2013 - Mar 2014
<b>Reference date:</b>	30 June, 2011	30 June, 2012	30 April, 2013	30 September, 2013
<b>Aim:</b>	<ul style="list-style-type: none"> <li>▪ Credit portfolio assessment (EUR 281 Bi - 72% to 100% of each bank total credit portfolio)</li> <li>▪ Credit risk capital requirements validation</li> <li>▪ Assessment of the parameters and methodologies used in the stress-test exercises</li> </ul>	<ul style="list-style-type: none"> <li>▪ Credit portfolio assessment – exposures to the construction and real estate sectors in Portugal and Spain (56% of the population analyzed – EUR 69 Bi).</li> </ul>	<ul style="list-style-type: none"> <li>▪ Credit portfolio assessment (EUR 93 Bi analyzed)</li> </ul>	<ul style="list-style-type: none"> <li>▪ 12 economic groups (EUR 9.4 Bi)</li> </ul>
<b>Results:</b>	<ul style="list-style-type: none"> <li>▪ Impairment reinforcement needs: EUR 596 M</li> <li>▪ Increase of total capital requirements: 0.6%</li> <li>▪ Impact on Tier 1 ratio: from 9.1% to 8.8%</li> </ul>	<ul style="list-style-type: none"> <li>▪ Impairment reinforcement needs: EUR 474 M</li> </ul>	<ul style="list-style-type: none"> <li>▪ Impairment reinforcement needs: EUR 1,127 Bi (reinforced by 30 June, 2013)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Impairment reinforcement needs: EUR 1,003 Bi</li> </ul>

Source: Banco de Portugal

# PORTUGUESE BANKING SECTOR OVERVIEW

Annex:  
Comprehensive Assessment

## Comprehensive Assessment results revealed capital shortfalls for 25 european banks, totalling 24,6 billion euro.

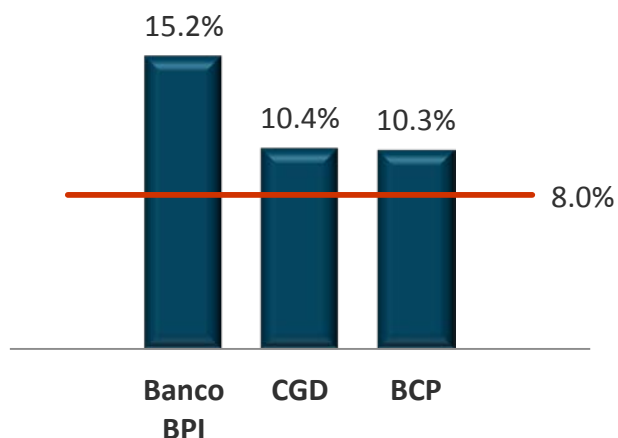


Source: APB, EBA

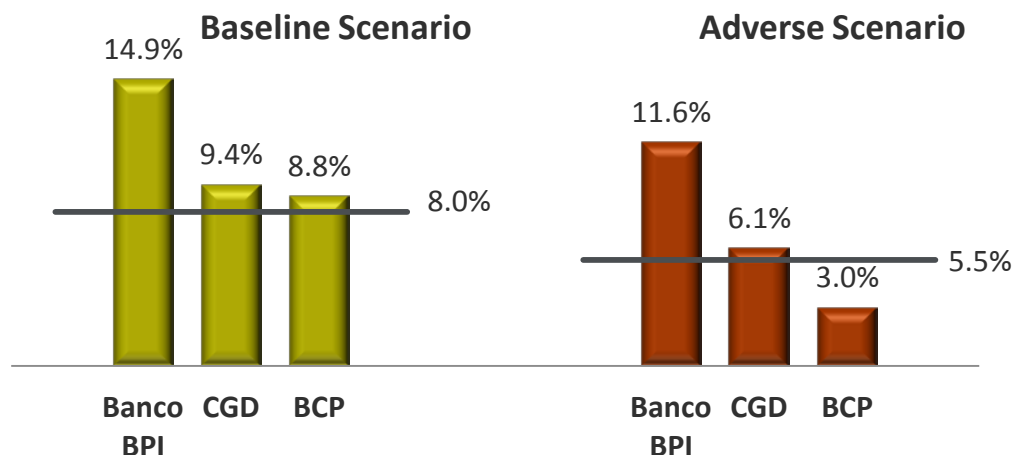
- In October 2014, the European Banking Authority presented the results of the comprehensive assessment conducted to 130 European banks, which accounted for 81.6% of the total banking assets of the countries belonging to the Single Supervisory Mechanism as of 31<sup>st</sup> December 2013.
- The Comprehensive Assessment consisted of two components:
  - AQR (Asset Quality Review) – assessment of the carrying value of the banks' assets;
  - Stress Tests – examination of the resilience of banks to macroeconomic scenarios (baseline and adverse scenario).
- The capital shortfall identified amounted to 24,6 billion euro.

In Portugal, the exercise covered three banking groups which successfully concluded AQR and shown resilience under the baseline scenario of the stress tests.

**CET 1 Ratio as of 31.12.2013, adjusted of impairments as a result of the AQR\***



**CET 1 Ratio projected for 31.12.2016, under baseline and adverse scenarios of the Stress Tests\***



The assumptions of the exercise were particularly severe for Portuguese banks since the reference was already very unfavourable due to the macroeconomic context that Portugal has been experiencing.

In 2014 BCP took measures to overcome the capital shortfall identified in the adverse scenario, such that it already exceeds the minimum requirements, however due to methodological reasons those were not taken into account in the exercise.

\* Of the Portuguese banks included in the exercise.

Fonte: APB, Banco de Portugal, EBA



# PORTUGUESE BANKING SECTOR OVERVIEW